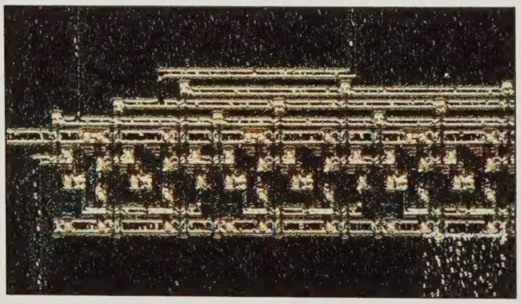
British Columbia Telephone Company Annual Report 1983

TABLE OF CONTENTS

COVER

The lights of Canada's first covered amphitheatre — the 60,000-seat B.C. Place Stadium — are reflected in the waters of False Creek in downtown Vancouver. The multi-use stadium, opened in 1983, is part of the twenty-year B.C. Place redevelopment project and will play a central role in the 1986 world exposition of transportation and related communications — Expo 86. B.C. Tel is proud to have been awarded the contract for providing much of the stadium's communications infrastructure. B.C. Place Stadium stands as a symbol of confidence for this province and its people.

The importance of the tiny micro-processor chip from the laboratories of Microtel Pacific Research is out of all proportion to its size. It, too, is symbolic — symbolic of B.C. Tel's participation in the enormous potential of the Information Economy.

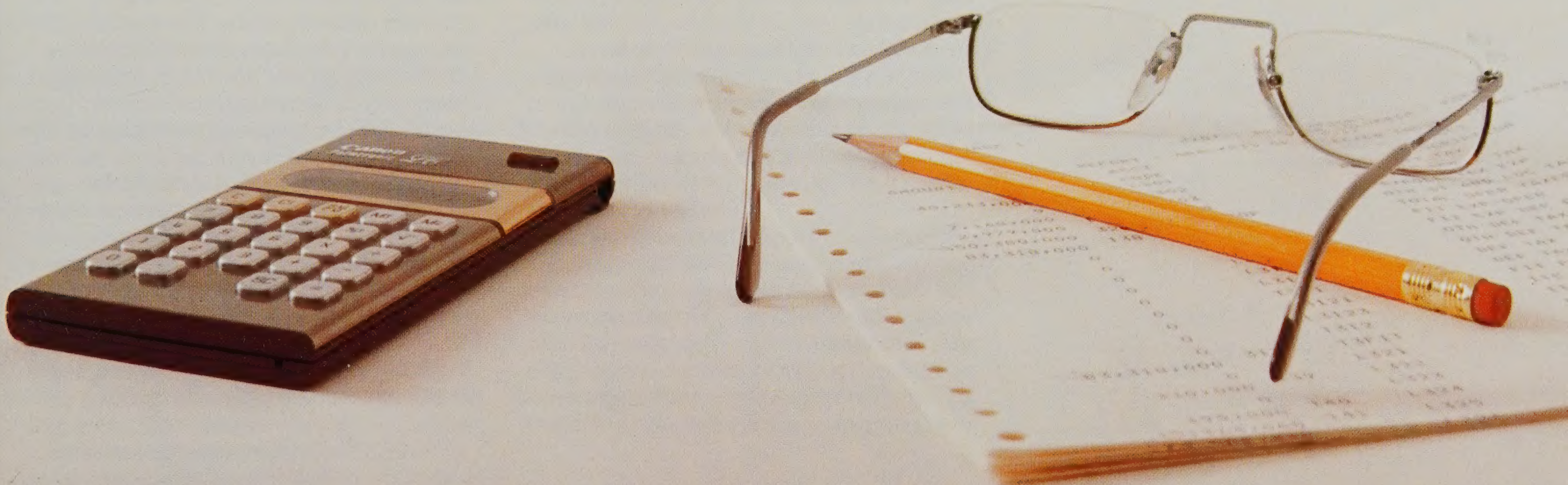


Comparative Highlights

For the years ended December 31

British Columbia Telephone Company

		1983	1982	Increase (Decrease)
Revenues, Expenses and Earnings *($ Millions)*	Telecommunications operations			
	– revenues	**$1,091.3**	$1,009.4	8.1%
	– expenses	**$806.4**	$741.3	8.8%
	Manufacturing operations			
	– sales	**$206.5**	$243.6	(15.2%)
	– costs and expenses	**$194.4**	$231.3	(15.9%)
	Combined operating earnings	**$297.0**	$280.4	5.9%
	Ordinary share earnings	**$ 86.2**	$ 72.2	19.4%
Ordinary Shareholders' Items	Earnings per share	**$ 2.36**	$ 2.11	11.8%
	Dividends declared per share	**$ 1.60**	$ 1.60	—%
	Equity per share	**$17.82**	$16.83	5.9%
	Average shares outstanding *(Millions)*	**36.6**	34.3	6.7%
	Return on average share equity	**13.77%**	12.81%	7.5%
Invested Capital	Average invested capital *($ Millions)*	**$1,952.9**	$1,827.2	6.9%
	Return on average invested capital	**11.18%**	11.05%	1.2%
Other Statistics	Gross capital expenditures *($ Millions)*	**$379.8**	$433.9	(12.5%)
	Internally generated funds *($ Millions)*	**$248.8**	$245.6	1.3%
	Customer lines in service	**1,361,000**	1,325,000	2.7%
	Customer line gain for the year	**36,000**	16,000	125.0%
	Number of employees	**16,795**	17,842	(5.9%)



The Chairman's Letter

Last year's annual report dealt, at some length, with the important changes we had made during 1982 to meet the challenges of a harsh and uncertain economic climate, the rapid development of new technologies and our new competitive environment.

Those same challenges faced us throughout 1983. I am pleased to report that the results and progress which we have realized this year have more than justified our decision to transform this Company through those changes.

We recognized that if we were to meet our obligations to our customers, our shareholders and our employees in both the short term and the long term, we would have to become a different kind of company — different in structure, different in direction and different in outlook and attitude.

We determined that a transformed B.C. Tel should exhibit these characteristics:

☐ a much improved human relations climate;

☐ an ability to operate successfully in the many areas of our business made vulnerable by competition;

☐ strong management resources to chart the new directions we had set;

☐ sufficient flexibility to enable us to respond appropriately to fast-changing conditions.

The progress we have made in effecting this transformation is detailed in various sections of the Report of Directors. I bring it to the attention of shareholders in this letter because it was, in my opinion, the most notable of our achievements in 1983. While the balance sheet may not convey the significance of this year's developments, I can assure shareholders that this year we moved very rapidly towards our goal of a transformed Company.

Although once again we have been unable to bring the returns to shareholders to the level we believe is necessary, we have set this Company on a course that should enable us to attain reasonable long-term performance.

In 1983, we continued to manage the options available to us under a program of restraint. We did this without incurring serious penalties to our work force, our customers or our shareholders.

To offset the effects of recession, we applied for a modest increase in rates but were unsuccessful in realizing the level of increase required to achieve satisfactory earnings. This shortfall was partially offset by improvements in our returns from the toll revenue settlements we share with other members of Telecom Canada.

We reassessed and rationalized operations throughout the Company with the objective of improving our effectiveness and our profitability. As a result of this reappraisal, AEL Microtel has taken specific steps to bring its resources and activities more closely in line with a realistic view of its marketing potential.

The benefits of having our own research and development facility, allied with our own manufacturing resources, were demonstrated convincingly as the Spacetel project moved from the conceptual stage at B.C. Tel to the laboratories of Microtel Pacific Research (MPR), through the workshops of AEL Microtel and into the market to become the leader in this particular application of satellite-assisted telecommunications.

One of our most important accomplishments in 1983 was the establishment of our own education centre. The construction of this new building was completed by the end of the year — ready for occupancy and use. As a company, we must utilize appropriate new technologies as they develop; as an employer, we must ensure that our present employees have the opportunity to become skilled in the use of these technologies. This is in the Company's interest, in the employees' interest and in the interest of society as a whole.

The rate of development in the computer-communications field is so rapid that it has already become apparent that many employees will have to undergo several periods of retraining in the course of their careers. The new education centre is evidence of the Company's commitment to this process.

Apart from training, we moved ahead in other human resources areas in 1983. I regard the improved degree of labour-management harmony which prevailed as an indication of a significant step forward — a development that is due, in large part, to a maturing of attitudes on both sides. The introduction and expansion of a number of positive action programs related to enhancing the quality of life in the work-place should also be given some credit for this improvement.

Our decision to compete in the business terminal market by creating a new division of B.C. Tel — Business Telecom Equipment (BTE) — has been validated by BTE's outstanding performance. In its first full year of operation the fledgling venture captured more than three-quarters of the new buying decisions of this highly competitive market.

Within the regulated sector of the Company, network marketing has undertaken a major realignment of

targets and priorities in line with a totally customer-oriented philosophy of doing business. We are making every effort to ensure that our network is utilized to full advantage and that our services and products are promoted and marketed aggressively. Shareholders may be surprised to learn that we have some 250 products and services coming under network marketing in the regulated portion of our business. Our objective is to improve the return on each of these, regardless of the existence of present competition or the threat of future competition.

The threat of new or increased competition in areas of fundamental importance to this Company materialized late in 1983 in the form of two applications to our regulatory body — the Canadian Radio-television and Telecommunications Commission (CRTC). One was by British Columbia Railway (BCR), the other by CNCP Telecommunications (CNCP).

The BCR application seeks regulatory approval for the interconnection of its telecommunications facilities with those of B.C. Tel for the purpose of competing with B.C. Tel in the provision of dedicated facilities for data communications services.

A far broader type of interconnection is being sought by CNCP to permit it to compete with B.C. Tel and Bell Canada in the provision of public long distance voice communications (message toll services).

Although the applications differ in the kind and degree of inter-connection sought, together they constitute a challenge to the principles and practices which have made possible the provision of low-cost, universal telephone service in Canada. Each applicant seeks to compete with a telecommunication carrier which has been granted the status of sole provider of basic telecommunications service. As sole provider, we have been able to apply the utility pricing concepts of price averaging and value-of-service pricing for our services.

In practice this has meant that we have been able to provide service in the non-compensatory areas of our operations, such as the provision of local service or service to remote or sparsely populated communities, with 'surplus' revenues generated by relatively high-margin areas such as private line and message toll service. It is these high-margin areas which are the targets of our competitors. They seek, as well, to exploit the high margins created by price averaging within those services and to attain them without fully assuming the obligations we carry for our less-than-compensatory areas of business.

As I have stated many times before, B.C. Tel is not opposed to competition. We have already demonstrated that we can compete successfully in those areas which have been opened to competition. However, we are convinced that competition should be introduced only when it has been positively determined to be in the public interest. In our opinion, such a determination can be made only after a detailed and exhaustive examination of the likely impacts on the various groups which use telecommunications services.

There is no doubt that the regulator is aware of the far-reaching issues raised by these applications. During 1984 and 1985, the CRTC will undertake several initiatives to consider the future role for competition in presently non-competitive or limitedly competitive telecommunications markets as well as the manner in which competition should be conducted. The regulatory body has indicated that it intends to hold a general issue proceeding on interexchange competition in the fall of 1984 as one of these initiatives. This issue relates directly to the BCR and CNCP applications. Therefore, we have suggested to the regulator that no action be taken on either application until the very difficult, extensive and fundamental issues have been resolved or decided.

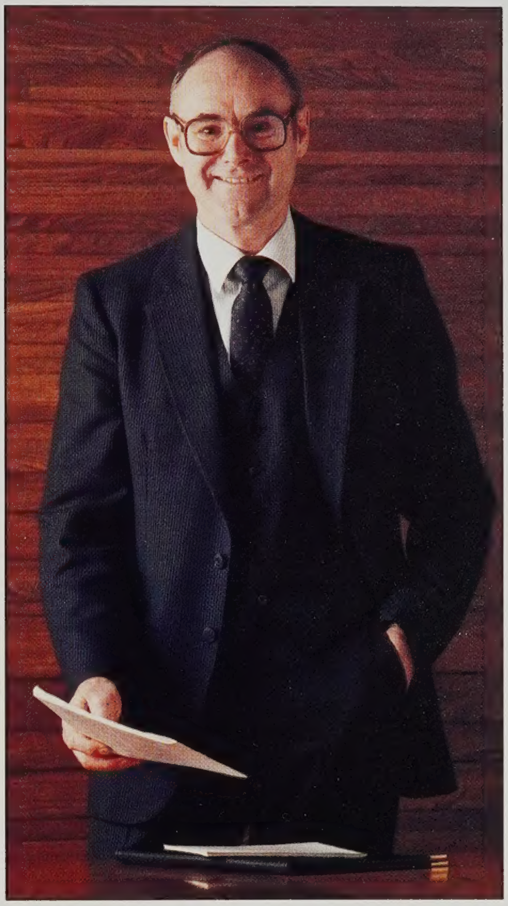
There were other regulatory developments in 1983, details of which are provided in the Report of Directors.

Although regulatory matters were of considerable concern during 1983, it was the economy which received our closest and most serious attention. We were heartened by the results of our first and second quarters, but our third and fourth quarter results suggest that we have a very fragile economic situation on our hands — one that will demand continuing restraint and stability, within and without the Company. Although the recession has eased considerably, there remain so many differences of opinion as to the strength and duration of the recovery that we must continue to be prudent.

However, I am confident that the transformation which has taken place in the Company will stand us in good stead in even more difficult times and enable us to capture an appropriate share of the rewards that are part of the Information Economy.

I base that confidence on our more efficient, more highly motivated employee group — management and non-management; on the highly professional management team now directing the energies of the Company; on our mastery of the technologies relevant to the Information Economy and on the extensive and modern facilities of our network and our family of associated companies.

Of equal importance is the support and guidance I receive from our board of directors. Their counsel made an immeasurable contribution to the successful conduct of our business in the interest of shareholders, employees and customers.



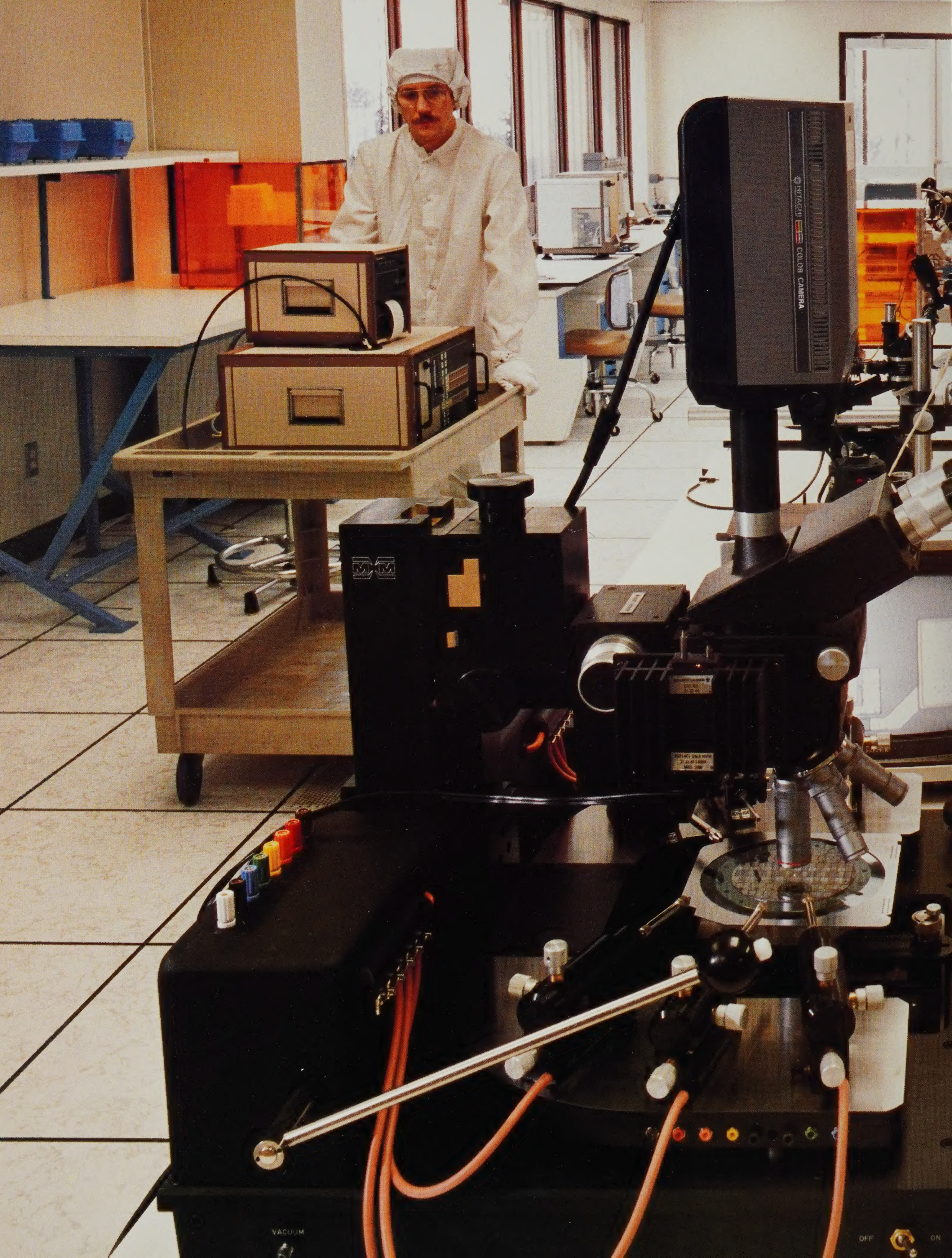
G F MacFarlane

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

The Queen invites the world to Expo 86 — by telephone

A highlight of the 1983 Royal Visit to British Columbia took place in the still-unfinished B.C. Place Stadium in March when Her Majesty Queen Elizabeth II issued an invitation to 160 countries around the world to attend Expo 86. The Queen's telephoned invitation — the largest conference call ever placed in Canada — was transmitted instantly through satellite communication. Stadium spectators and a vast television audience watched a gigantic map of the world come alive with lights as the calls to the various countries were completed. B.C. Tel supplied the expertise and equipment to make this historic phone call possible.


EXPO
86


HITACHI
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Looking into the future

Microtel employees, in one of the 'clean rooms' of the Microtel Pacific Research facility, wear special clothing which minimizes the danger of impurities entering the delicate process of designing, manufacturing and testing microprocessor chips.

Report of Directors

There is a truism that the boundaries which once divided the various elements of the telecommunications industry into neat, easily defined segments have become confused and blurred by the introduction of the new technologies of the Information Age.

Our own Company is no exception to this trend and our most recent reorganization has increased the complexity of reporting to our shareholders. Where once we had only to report on the total of our telephone operations, we must now describe our traditional telephone service, manufacturing, marketing, research and development, off-shore opportunities and our venture into the highly competitive markets.

In short, we have transformed the Company from a regulated utility essentially serving and based within a single province to a diversified corporation — many of whose services and products are marketed across Canada, in the United States and in countries around the globe. At the same time, we continue to provide the telecommunications services which are the origin and foundation of our existence.

So that shareholders may more easily visualize the various components which make up British Columbia Telephone Company, this year's Report of Directors has been divided into four sections dealing with the company, the network, B.C. Tel's extended family and the future.

The Company

FINANCIAL RESULTS

The details of the financial returns of the Company as a whole are contained in the Financial Review, pages 20-21.

They reflect both the achievements and the disappointments of the various elements which make up the Company. In general, we consider the attainment of a 13.77% return on common equity and earnings per ordinary share of $2.36 to be a considerable achievement in a year which began in the depths of recession and progressed very gradually toward recovery.

For the third consecutive year, total revenues and sales were in excess of a billion dollars, with the network again proving to be the principal generator.

Throughout much of the year, the stock market appeared to endorse our positive appraisal of the Company's performance, with the stock trading close to or above book value.

THE CORPORATE MANAGEMENT GROUP

As part of the reorganization of the Company, a corporate management group came into being in 1983, a part of whose function is to provide an improved quality and level of information for the use of the chief executive officer and the board. The group is responsible for setting and monitoring our long-term business approach as well as recommending a balance of priorities against available resources.

In respect to new ventures, it acts as a catalyst to set them in motion or as a probe to assess their value in the context of the entire Company and their potential for making a useful contribution to its profitability. The group also provides information and counsel for the members of B.C. Tel's extended family.

In assessing the general environment in which B.C. Tel operates, we join with other major telephone companies across Canada to meet new threats or opportunities on the national level. B.C. Tel has been a member of the consortium of telephone companies which formed the TransCanada Telephone System in 1931. In 1983, this name was changed to 'Telecom Canada'. Earlier in the year the National Systems Group was formed within the consortium. It targets major national accounts, offering them the diversified resources of the entire system as part of Telecom Canada's effort to compete vigorously for the dollars being spent on telecommunications services across all of Canada.

B.C. Tel's role in the community and the profile it presents are monitored as part of the responsibility of the corporate group which also assists the operating entities' relationships with all levels of government.

For example, planning is now under way to ensure that B.C. Tel can take full advantage of the opportunities to demonstrate its expertise and products to the world audience which will gather in Vancouver for Expo 86 — the world transportation and related communications exposition.

One of the principal responsibilities within the corporate management group is that of corporate finance. Interest rates made this a particularly heavy duty during 1983 as the Company sought the most advantageous terms and time for its debt and equity issues. As reported in our Financial Review, it was possible to accomplish this financing without the severe penalties paid in recent years. Our equity issue was well received on the market as was the amended Dividend Reinvestment and Share Purchase

Plan and the Company's 1983 Employee Share Purchase Plan.

A total of 3,234 employees of B.C. Tel, AEL Microtel and Canadian Telephones and Supplies (CT&S) took advantage of the latter plan. Approximately $13.5 million of additional capital could be generated during the 23-month purchase period as a result.

The Network

There were major changes in the telephone operations of the Company in 1983, including the reorganization of the structure and the appointment of a new president and chief operating officer.

Terence F. Heenan

Terence F. Heenan, formerly president and chief executive officer of AEL Microtel, became president and chief operating officer of B.C. Tel effective April 15, 1983. Prior to his Microtel appointment he had been, for four years, president of the then Trans-Canada Telephone System. He joined B.C. Tel in 1967 and served at various times between that date and 1978 as vice-president operations, vice-president administration as well as chief financial officer.

NETWORK REVENUES AND TRENDS

A telephone company's business long distance revenues are a fairly reliable gauge of the progress of either a recession or a recovery. Certainly our toll revenues appeared to mirror the general state of the economy through much of the year, starting at the very low levels that reflected the continuing bite of the recession, progressing gradually in the second and third quarters as the recovery appeared to be gaining ground and then becoming relatively flat as worries about the strength and depth of the recovery affected the business community. To a lesser extent our residential long distance revenues followed this pattern as well.

For 1983 our long distance revenues amounted to $604.0 million compared with $555.5 million in 1982.

Conditions affecting the public at large are more accurately reflected by the number of new lines added to the network. Again, the progress from recession to recovery can be demonstrated.

In 1983, 35,963 lines were added to the system compared with only 16,412 lines added in 1982.

Total operating revenues for 1983 amounted to $1,091.3 million compared with $1,009.4 million in 1982.

Rather than the rate increase of 11.3 percent over two years sought by the Company in its 1982 application which would have added some $27 million in revenues, our regulatory body authorized a general increase of only 3 percent on basic monthly exchange rates and long distance rates within British Columbia.

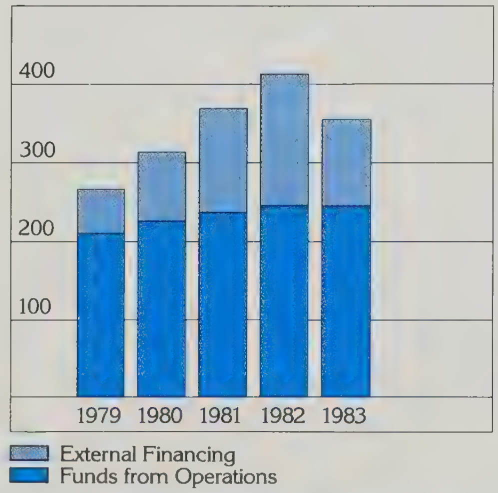
However, this relatively small increase, together with the effect of the recovery period and continued improvement in long distance revenue sharing settlements with other telecommunications carriers, brought our total revenues back some distance from the unsatisfactory levels of 1982.

Our operating expenses showed an increase of 8.8% over those of 1982. Major factors in the increase were the contractual wage adjustment for bargaining unit employees which became effective July 1, 1983, and the incentive costs incurred in connection with the early retirements of 236 long service management, craft and technician employees.

CONSTRUCTION PROGRAM

The construction program for the network was cut back significantly from the amount originally projected and expenditures amounted to $371.8 million by the end of 1983. Due to the recession and the uncertain economic climate, a number of projects were deferred or scaled down. In spite of this, considerable progress was made in up-grading, extending and maintaining the network throughout the province.

Source of Funds Used for Construction *($ Millions)*



THE REORGANIZATION

The reorganization of telephone operations into five operating areas proceeded throughout 1983 and was completed in its major aspects by the year end.

As was expected, there have been minor adjustments, rationalizations and realignments involved in this process but the operation, overall, went smoothly. This was due in large measure to the cooperative spirit of all those involved and to the energy and enthusiasm of the general managers who bore the brunt of the work loads. There has been flexibility in the approach and execution of the many changes which had to be made, all of which reflects favorably on the improved morale and adaptability of our employees.

A new corporate strategy with emphasis on competition — the 'Best' program — was introduced in 1983. This strategy, which is long term, calls for each business unit to compare its products, services and operating performance with those of other telephone companies and competitors.

If a service lags that of the best in the field by any measure, a plan is implemented to eliminate such a gap to ensure that B.C. Tel becomes the best.

The 'Best' strategy, which is also in force in B.C. Tel's extended family of companies, is being implemented over a two-year period. Initially, the emphasis is on the gathering of data, setting benchmarks and establishing measurements in such areas as quality of service, employee morale, revenue generation and expense control.

The objective of the strategy is to take the concerns of both customers and employees into account in providing a high quality of service, a competitive spirit and the optimum utilization of our resources and, at the same time, be the low-cost provider of telecommunications services.

The importance of high-quality information delivered accurately and promptly cannot be over-emphasized in an Information Economy. Within B.C. Tel, our management information services have upgraded their facilities with the replacement of their mainframe computer with more sophisticated units and are planning further improvements through the use of fibre-optic cables to link them with their users.

The reorganization of certain aspects of our supply and transportation system in 1983 has resulted in a faster delivery system and a reduction of inventory with a subsequent saving in overhead

expenses. The centralization of warehousing was the principal factor in this improvement.

B.C. Tel's on-going commitment to improve service to its customers received recognition from its regulatory body in the CRTC's June 1983 decision on the Company's rate application. The Commission said it was 'generally satisfied' that the quality of service had 'improved significantly in 1982'.

APPLYING TECHNOLOGY

We continue to adopt and apply new technologies when they will improve service to our customers and either increase revenues or effect cost savings. In this regard there is due attention paid to the longer term effects of adopting new technologies as well as to the short term improvements in service, savings or revenues.

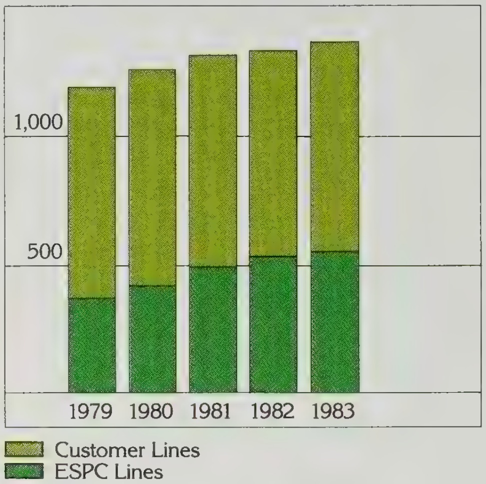
B.C. Tel's expanding use of fibre optics within the network is an example of providing for immediate improvements in service quality while, at the same time, building a groundwork for the more sophisticated developments of the electronic evolution.

Similarly, the introduction of Autotel — a fully automatic mobile radiotelephone service — provides immediate benefits to our customers and prepares the way for the introduction of cellular radio. Cellular radio in turn will introduce a degree of mobility that has important implications for this Company and the industry generally.

Autotel offers customers direct dialing to and from their mobile units, expanded channel selection and other features not available on existing operator-handled radiotelephone systems, including privacy within the system. Calls can be placed to and from anywhere served by the Autotel system, which is linked to the regular telephone network by a series of computerized control terminals. These terminals automatically select free channels, pass the caller from area to area and record billing information. The service is presently available to customers in Greater Vancouver, Kamloops, Kelowna, Penticton and Vernon. It is planned to make it available throughout B.C. Tel's system within the next two to three years.

The introduction of a complex digital switching system is at the other end of the scale of applied technology. The first of a new generation of digital electronic switches, the GTD-5 went into service in 1983 and will be followed by more in 1984. When these are installed there will be a substantial increase in the number of lines served by electronic switches.

Electronic Stored Program Control (ESPC) Conversion *(Thousands of Lines)*



Apart from its potential to improve the quality of service while controlling costs, the GTD-5 switch offers valuable flexibility in meeting changing customer demands and varying growth patterns. The system is centred on a base unit — the GTD-5 — and comprises a number of remote switching and line units to serve smaller, outlying communities as well as multiplexers to serve sparsely populated areas.

The initial introduction of this digital switch demonstrates the value of the cooperative resources of our diversified corporation. The production facilities of Microtel and the expertise of that company's employees as well as those of CT&S and B.C. Tel's network group all came into play in the course of this project.

NETWORK MARKETING

As part of the Company's transformation from an engineering-based utility to a competitive, market-oriented business, network marketing now concentrates on programs and strategies to increase the utilization of B.C. Tel's network facilities as well as the many products and services in its inventory.

The basis of the new approach is an understanding of customers' needs and wants and the determination to satisfy them — customer-orientation rather than Company-orientation.

Telephone business has been rationalized by dividing it into five major areas and developing strategies for each. These areas are local service, inter-city business long distance, residence long distance, consumer products and enhanced services. Inter-city business long distance is receiving a great deal of attention because it is most vulnerable to threats from outside competition and, at the same time, has the greatest potential for growth since it continues to be underutilized.

Customers are being offered products and services that embody the latest technological advances as well as increased user convenience.

A new electronic mail service — EnvoyPost — is just one example of the continuing effort to attract additional customers and increase revenues by improving the product or service. EnvoyPost is a joint offering of Telecom Canada and Canada Post. Users of Envoy 100, Telecom Canada's computer-based electronic messaging service, now have access to the national mail system. Electronic messages, prepared by Envoy 100 users, travel to the Canada Post electronic mail centre nearest the recipient and are printed on hardcopy printers at that location — then placed in envelopes and delivered by regular mail the next working day. Already encompassing some five million businesses and households, the service is expected to be available throughout Canada by mid-1984.

We are also exploiting the potential contained in the highly sophisticated electronic switches that have been installed in various areas of the Company's operating territory. Thanks to the advanced technology contained in these switches, it is now possible to offer our exchange customers a number of 'custom-calling' features.

Included in the offering of custom-calling services are 'Call alert' which informs a customer who is already using the telephone that another call is waiting. 'Call forwarding' permits a subscriber to transfer incoming calls to another number, either locally or through the long distance network. 'Speed calling' enables the subscriber to dial a complete seven-digit number by simply dialing a one- or two-digit code, while 'Three-way calling' allows customers to arrange mini-conferences over the telephone.

These services were available through five of the Company's central offices by year end and will become more widely available in the future.

Custom-calling features are just one of the many enhanced services already being offered to our customers or waiting in the wings for regulatory approval. Autotel and Spacetel, described elsewhere in this report, demonstrate the Company's application

of leading-edge technologies to meet customer demand and improve service.

In the area of data, enhanced and improved services are being introduced in conjunction with Telecom Canada and to further utilize our own extensive data networks.

Network marketing recognizes that its role is central to the eventual transformation of the Company. It is prepared to take advantage of the opportunities open to it at present and to meet the challenge of competition whenever and wherever it appears.

REGULATION

Rate Application — 1982

As reported in last year's annual report, at the end of 1982 the Company filed for a general rate increase of 11.3%, with a portion at least to become effective May 1, 1983.

Following public hearings, the regulatory body handed down its decision on June 22, 1983. The decision granted the Company a 3% increase in tariffs, effective June 28. In addition, the Commission concluded that the appropriate rate of return on average common equity should be 13.25% for regulatory purposes with a permissible range between 12.75% and 13.75%.

The decision, particularly that part of it dealing with the permissible rate of return, was disconcerting for the Company. It meant that we would be at a disadvantage in competing for funds compared with other utilities who are permitted higher ranges of permissible rates of return. It is our contention that we require a permissible range that is at least one full percentage point higher than that granted us.

The decision appears to highlight a paradox in the regulatory process. On the one hand, we are directed by the regulatory body to improve our service, yet the same body denies us the opportunity to excel and thereby make possible an even higher degree of service improvement. The unfortunate result is that, to no one's benefit, we operate under conditions of inhibition rather than encouragement.

Interim Rate Application — 1984

The Company has applied to its regulatory body for an interim increase in rates to become effective July 1, 1984. If applied from that date to December 31, 1984, the interim increase would generate additional revenues of approximately $17 million — representing an increase of less than 1.5% of the total estimated 1984 revenues.

The application, filed January 27, 1984, requests approval for an interim increase of approximately six percent on residential and business basic services, on certain service charges and on long distance calls within British Columbia.

Weakness in the province's economic recovery, which began in mid-1983, and expectation of a continuing lack of economic vigour throughout 1984 have resulted in real and projected revenue shortfalls. The Company proposes to offset a major portion of the reduced revenue estimate by restraining its operating cost and capital program to the minimal level required to maintain the quality of its services.

Following an assessment of the full extent of the Company's revenue requirements for 1985, an application requesting a general increase in rates will be filed on October 26, 1984. The CRTC has advised the Company that the earliest date it could schedule hearings for a general rate increase would be February 1985, with implementation, if approved, in May 1985. Taken with our projected revenue situation, this lengthy regulatory timetable made an application for an interim rate increase imperative.

Cost Inquiry — Phase III

The CRTC completed public hearings in connection with Phase III of its inquiry into costing practices of the telecommunications carriers in the latter part of 1983. Although the results of the inquiry are not expected before mid-1984, it does bring to an end a lengthy process that has covered basic accounting practices (Phase I) and the cost-price relationship of new services (Phase II).

In effect, Phase III is an attempt to establish and identify the cost of existing services to determine whether or not the carriers' competitive services are priced below cost to the detriment of both the monopoly subscribers and the carriers' competitors.

The problem of developing a costing methodology that could determine the public interest in this regard is extremely complex since it is almost impossible to determine which technology (and therefore cost) applies to a given telephone call since the entire network is used simultaneously for many purposes and services.

Whatever cost-analysis tools are developed as a result of the Phase III inquiry, the proper balance between compensatory and non-compensatory services remains to be resolved. Since the contribution provided by long distance services has been the basis on which the telephone companies have been able to provide low-cost local service, the issue is of the utmost importance to the carriers, to their customers and to the public at large.

Long Distance Competition

Applications for interconnection with B.C. Tel's facilities by CNCP Telecommunications and British Columbia Railway, made late in 1983, suggest that some of our previously protected revenue base may be at risk. Although these applications — both involving quasi-governmental bodies — remain at the starting gate of the regulatory race track, their presence calls attention to the importance of the broad public issues that are involved in such applications.

Each relaxation of the boundaries of our traditional revenue areas would appear to hasten the day when the regulated carrier can no longer afford to offer low cost local services made possible by support received from services that have been opened up to competition. Before that day arrives, there are many social, financial and jurisdictional issues to be addressed and problems to be solved.

Enhanced Services

In 1984 and 1985, regulatory attention will be brought to bear on an area which the Company considers to be of great potential importance — that of enhanced services and the involvement of telephone companies in providing them.

Part of the regulatory process will involve a definition of enhanced services. The term Enhanced Services has generally been used to refer to services which combine information store and retrieval, information processing and/or information provision with basic transmission services, i.e. voice store and forward system, videotex, iNet, Envoy 100.

The CRTC has requested written comments on this subject and may call for public hearings before issuing any policy decisions.

Terminal Rates Unbundled

As part of its decision on the provision of terminal equipment in 1982, the CRTC directed B.C. Tel to file 'unbundled' rates for the attachment of subscriber-owned terminal equipment to the Company's network. Our proposed rates were filed early in 1983. To date the CRTC has not rendered a decision. As a result, customers were

denied some of the benefits contained in the proposed rates over this period of time.

Cellular Radio

This mobile radio technology permits virtually unlimited frequency sharing thus permitting almost an unlimited number of mobile radio telephones to be brought into service as demand develops and costs fall. The CRTC will determine the terms and conditions under which the federally regulated carriers and their national competitor will offer this service.

Cantel Cellular Radio Group Inc. has been granted the right to apply for frequencies to operate a cellular system in competition with cellular systems planned by Canadian telephone companies. B.C. Tel is currently planning to offer a cellular service in the Vancouver and Victoria areas.

HUMAN RESOURCES

The improvement of management-labour relations and of the workplace environment continued to be the top priority of the Company in 1983. The absence of substantive disagreements or points of major friction during the year is evidence of the improved human relations climate. More and better communications between the two parties and a mutual resolve to adopt a problem-solving rather than a confrontational attitude were largely responsible for the degree of harmony which prevailed.

In the case of the early retirement incentives offered to eligible craft and technician employees, the program when introduced reflected discussions which had been held with the Telecommunications Workers Union on how best to meet the Company's diminished work force requirements.

Early planning for the Company's reorganization recognized that effective two-way communication with employees would be a key ingredient for the success of the venture. It is regarded as vital by all managers charged with the implementation of the reorganization.

One of the tools in use is the 'Speak Out' program which invites employees to address questions or express concerns and have them answered authoritatively and on a confidential basis. The program got off to a slow start but has become increasingly popular as employees recognize its value.

Utilizing today's technology, the Company has established a video newsmagazine. The format of this quarterly newsmagazine gives employees the opportunity of seeing and hearing about developments within the Company and its extended family as well as discussions with Company executives and items of interest concerning fellow employees. It has been well received. Electronic bulletins, utilizing the Envoy 100 terminals in use throughout the Company and the DEC 10 computer system, speed the delivery of important news and information to employees.

Quality of Life

In mid-1983, the Company adopted a Clean Air Policy as one of its direct action programs designed to improve or enhance the working environment. In addition to prohibiting smoking in health centres and all public-access areas, larger portions of Company cafeterias were set aside as non-smoking areas. Employees were encouraged to designate their individual work stations as non-smoking areas and an ambitious employee education program was carried out throughout the Company. Employee response has been excellent.

Health

Health-related counselling programs including those related to drug and alcohol problems and the management of stress continued in 1983 as did the Company's highly respected first aid program.

Training

As of the first of this year, B.C. Tel has its own training and educational facility, bringing together all corporate training facilities under one roof.

The new education centre, located in Burnaby, was constructed on a lease-to-own basis and will provide the long-term solution to the problem of leased space in a number of different locations. With some 4500 square metres (160,000 square feet) of floor space on three floors, the new centre incorporates the latest training aids in its 55 classrooms, including a problem solving centre.

Two of the three floors are occupied by B.C. Tel with the third divided between Microtel's teletraining group and CT&S. When fully operational the Centre should be able to provide training for some ten thousand employees annually. B.C. Tel invests more than $7 million each year as part of its commitment to protect the futures of its employees through education, training and retraining.

Two arms of the B.C. Tel family are utilizing the most advanced computer-based training system in the world — the Time-shared Interactive Computer-Controlled Information Television system (TICCIT). Microtel has been granted sole North American distribution rights for the telecommunications industry — a very large target market — while B.C. Tel utilizes the system in its own training process to produce a higher level of training effectiveness in a shorter time.

Investment Management Program

This program was originally designed to demystify financial terms and enable employees to become familiar with the theory and practice of financial systems as they apply in this Company. The program has fulfilled its initial objective and is paying handsome additional dividends.

These are the result of the follow-up projects which each class undertakes. Problem areas are identified, possible solutions proposed and the expected financial impact set out. The projects are then subjected to executive appraisal and, if promising, followed up. The result to date is an estimated saving or additional revenue generation in excess of $40 million. Apart from the welcome financial results, the course provides improved motivation and awareness of the scope of the Company, its potential and its problems for the managers who participate.

The Extended B.C. Tel Family

B.C. Tel moved into diversification on a large scale in 1979 with the acquisition of switching and transmission manufacturing companies and the creation of a research and development facility. Together these units comprised the subsidiary company AEL Microtel Limited (Microtel) and its subsidiary Microtel Pacific Research Limited. Microtel, with its smaller subsidiary Viscount Industries Limited, formed the manufacturing and R&D arm of B.C. Tel.

Canadian Telephones and Supplies, a long-time subsidiary of B.C. Tel, is another member of B.C. Tel's extended family.

The most recent evidence of the Company's determination to remain a leader in the provision of telecommunications products and services is its entry in the unregulated business terminal equipment field — Business Telecom Equipment (BTE). BTE is a division of B.C. Tel but, from an accounting point of view, it is a totally separate entity and operates as a distinct competitive business.

Together, these members of B.C. Tel's extended family make important contributions to the overall success of B.C. Tel by providing specialized capabilities and expertise, broader

exposure for our products and services and dedicated research and development capabilities.

AEL MICROTEL LIMITED

Robert F. Alexander

Robert F. Alexander was appointed president and chief executive officer of Microtel effective April 15, 1983, following a distinguished 30-year career with Bell Northern Research and Northern Telecom (Canada) Ltd. Immediately prior to joining Microtel, he was division general manager of the business products division of Northern Telecom in Calgary.

In moving towards its long-term goal of substantially increased profitability, Microtel, in 1983, went through a year characterized by changing strategic directions and difficult tactical decisions.

Strategically, the goal is to convert Microtel from a manufacturing company to a market-driven company with manufacturing and research and development capabilities.

At the tactical level, several decisions were made to streamline operations and move to newer high technology product lines. Any products identified as products of the past will be managed down over a period of time so that existing customers do not suffer.

Structurally, the decision was made to consolidate a number of older or less profitable operations. As a result, Microtel first divested itself of its small interconnect business venture in Eastern Canada. Its employees were taken on by its new owner, Eastern Independent Telecom. When the microwave radio system manufacturing was rationalized in February, 1984, Microtel was able to relocate a number of its Winnipeg employees elsewhere in the system.

Management of Control Devices in Edmonton was realigned late in 1983. Responsibility for the Control Devices product line was transferred to other areas of Microtel's operations. Research and development of the products was moved to Microtel Pacific Research and manufacturing to other Microtel locations.

Although performance by Control Devices was disappointing, Microtel has confidence in the market potential of energy management and control products and has shifted marketing responsibility to its sales offices in Atlanta, Georgia.

Sourcing of single line telephone sets has been out of the Lethbridge plant. This is no longer a viable alternative for Microtel, so the facility and much of the equipment was sold to NovAtel Communications Ltd., an Alberta company.

The rationalizations, portfolio upgrading and market orientation is the start toward stable sales and earnings performance, and toward managed growth, especially in the United States' marketplace.

High on the list of positive developments is the switch in emphasis from manufacturing to marketing and new product development. Heading this change are senior marketing and long-range planning people who have been brought in to focus on market planning over the long term, as well as to ensure that research and development is market-oriented.

The 'Best' program also figures prominently in Microtel's plans to compete successfully in the telecommunications marketplace.

Spacetel

What started as the largest single project ever undertaken by the Microtel Pacific Research (MPR) laboratories ended up 30 months later as the most exciting product in the Microtel portfolio. The product is Spacetel. This is a revolutionary new transmission system which utilizes satellites to provide metropolitan-quality telephone service to remote areas — a concept given high priority by B.C. Tel.

Following design and development by MPR, the project moved to Microtel's manufacturing facilities for construction and from there, via marketing, to the first customer, B.C. Tel. Telephone network marketing sees obvious markets for Spacetel in the remote sites of the province's resource industries.

By the end of 1983, Microtel had supplied B.C. Tel with a Central Control Station and 25 remote earth stations and has orders for a Central Control Station and five remote stations for Manitoba Telephone System. Canadian government agencies and foreign countries are among the many potential customers who show great interest in the capabilities of Spacetel.

GTD-5 Switch

Microtel will continue to rely on production and sales of its GTD-5 large-scale electronic switch as the core of its switching business. The transition to digital central office switching techniques is a world-wide trend and the GTD-5 reflects leading-edge technology. Microtel plans to apply a series of evolutionary changes and technical improvements to this basic switch to ensure the growing success of the GTD-5 in the marketplace.

Microtel Pacific Research (MPR)

Microtel is looking to its research and development facility to deliver new products for the future and to enhance some of our present products to make them more market-oriented.

MPR's new Clean Room for the production of Very Large Scale Integrated circuits was one of the improvements made in the Discovery Park facilities in 1983 while work continued on several new products including cellular radio control stations and a system to permit the transmission of data on telephone lines while the lines are in normal use.

Viscount Industries

Viscount continued its design and production of high technology test systems which are utilized in B.C. Tel's own system and offered on the world markets.

CANADIAN TELEPHONES & SUPPLIES

The traditional role of Canadian Telephones and Supplies in the B.C. Tel system is that of supplying expertise for the installation of major items of equipment such as central office switching equipment and large PABXs. In 1983, this role was expanded to supply the same kinds of services on a contract basis for Business Telecom Equipment.

CT&S moved into a new area of operations with the formation of a separate division — Telecommunication Services International. This venture is designed to draw on the depth of expertise within the Company, particularly in the area of installation, and offer it world-wide for training purposes. It is one method of selling B.C. Tel's training and telephony skills and, at the same time, offering additional employment

opportunities in an area that suffers from seasonal and cyclical dislocation.

BUSINESS TELECOM EQUIPMENT (BTE)

After one full year of operation in the highly competitive business terminal equipment market, this division of B.C. Tel can report success beyond expectations.

BTE, which operates as a distinct self-sustaining business, captured in excess of 75% of the market in this first year and has its sights set on equalling or surpassing that achievement in 1984. This performance indicates that BTE was correctly positioned in the market from its inception. It also indicates that its personnel, drawn almost 100% from B.C. Tel, have been capable of making the transition from the traditional utility mode of operation to the more flexible and, at times, more demanding methods of operating in the open market. A high degree of motivation and enthusiasm throughout BTE's workforce contributes to the enviable record set by this division.

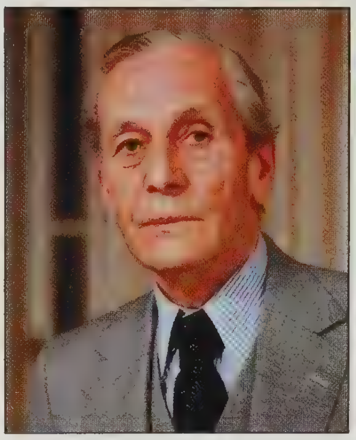
Among the major accounts captured in the face of competition during 1983 were the Insurance Corporation of British Columbia, MacMillan Bloedel Ltd., the Vancouver International Airport and the province-wide Simpsons-Sears Ltd. system.

BTE originally offered its products on either a lease or sale basis but is moving towards a sales-only mode to eliminate the requirement for regulatory approval of its leasing tariffs, often a protracted process.

BTE began its operations by concentrating on the market segments which offered the greatest opportunity for success and the highest margin of profitability. It will continue to apply this marketing philosophy and continue to set the standard for the marketplace.

BOARD OF DIRECTORS' CHANGES

Changes in the membership of B.C. Tel's board of directors were announced at the Company's annual meeting, held on March 24, 1983. Elected to the board to fill the vacancies created by the retirement of J. Ernest Richardson and the untimely death of Allan M. McGavin were James L. Johnson, president of the GTE Telephone Operating Group and Allan L. Rayfield, president of the GTE Diversified Products and Services Group.



J. Ernest Richardson

J. Ernest Richardson came to B.C. Tel in 1963 as president and chief executive officer after a distinguished career with Maritime Telegraph and Telephone Company and The Island Telephone Company. He assumed the added responsibility of chairman of the board of B.C. Tel in 1971 and became chairman and chief executive officer in 1974. He retired as chief executive officer January 1, 1976, remaining chairman until his resignation in March of that year following his appointment as chairman and acting president of MacMillan Bloedel Ltd., a position he held until June, 1981.

At its meeting following the annual general meeting, the board passed the following resolution:

"In addition to the day-by-day direction of the Company from 1963 to 1976, Mr. Richardson laid solid foundations for the equally vigorous growth the Company has achieved since his retirement from active management. The value of his generous contributions as a member of the board during this latter period cannot be overstated.

The Company is indebted to him for the vision he displayed, the determination with which he pursued that vision and the mature intelligence he applied to the conduct of the Company's business.

The members of the board of directors of British Columbia Telephone Company therefore wish to record their grateful appreciation of the exceptional leadership, diligence and concern for the welfare of the Company which marked his notable contribution to the progress of B.C. Tel."

Allan M. McGavin

The late Allan M. McGavin was a director of B.C. Tel from 1971 until his untimely death on December 8, 1982. At the time of his death he was honorary director of McGavin Foods Limited, the firm he had been associated with throughout his career. He was also director of B.C. Forest Products Limited, John Labatt Limited, Trans Mountain Pipeline Company and the Bank of Nova Scotia.

Mr. McGavin was chancellor emeritus of the University of British Columbia and was active in many community and sports activities. He is remembered at the university through a Chair of Geriatrics which he established and the Allan McGavin Sports Medicine Centre which was established in his memory in 1983.

The Future

There are grounds for a considerable degree of optimism regarding the future prospects of B.C. Tel. The major causes for concern come from without the Company, rather than from within.

It is apparent that the transformation of the Company through restructuring and reorganization has been accomplished with a minimum of disruption and with results that have already justified the element of risk involved in our decision. While there will continue to be some degree of fine tuning, inevitable in an undertaking of this magnitude, we look to increasing benefits and increasing profitability as the transformation takes on a more definite form.

The early and impressive success of Business Telecom Equipment raises the possibility that more and more of our ventures in the world of competition will be modelled on its design and pattern of implementation.

We will continue to take the risks involved in funding our research and development programs. While there are no guarantees of success, we believe that Microtel Pacific Research's record to date more than substantiates further investment in this area. Quite apart from the possible direct returns from R & D, we believe that we have an obligation to the province and to the country to encourage in every way possible increased participation in the Information Economy. This can come about only through the establishment of a domestic high technology infrastructure.

We will continue to improve the infrastructure of our own Company through our training and educational efforts; through the physical up-grading of our network; through continuing

application of the 'Best' concept and through our commitment to seek further improvements in our human resources area.

We will seek to satisfy the aspirations of what has become a younger, more sophisticated work force whose members, for the most part, welcome innovation and expanding career opportunities.

In turn, we will look to our work force for understanding and acceptance of whatever measures of restraint may continue to be required to cope with an uncertain economy.

The economic recovery in this province, and in the country as a whole, remains fragile and would be hard put to sustain major external shocks such as the oil crisis of a decade ago, or internal disruptions of our social fabric. More than most provinces, British Columbia depends on investment rather than consumer spending to keep its economy healthy, and must, therefore, make every reasonable effort to provide a climate that encourages capital investment.

Our economy has yet to fully recognize or realize the advantages inherent in the electronic technologies such as the micro-processor or chip. In the years ahead, our economic growth will depend, in large measure, on whatever productivity gains can be realized from the utilization of these technologies. We cannot compete in the world markets on the basis of low labour costs, as is the case for many offshore suppliers. Instead, we must develop comparative technological advantages and compete on that basis.

That is the intention and present practice of this Company as exemplified by the development of our Spacetel product and the new marketing thrust of Microtel.

In British Columbia and in Canada, the issue and implications of increased competition in the telecommunications industry should become a matter of concern to all Canadians. The focus of attention in 1984 will be on the outcome of CNCP Telecommunications' request to offer long distance service in this province, Ontario and Quebec on lines it already leases to major customers. The CRTC will have to decide a fundamental issue: whether or not the long distance user should continue to support local service, or should rates for both services be brought into line with costs. This is an issue so loaded with serious implications that it deserves the broadest possible public scrutiny and debate. B.C. Tel intends to participate fully in the process.

Undoubtedly, competition makes a welcome and valuable contribution to some aspects of the telecommunications sphere of activities. It hastens the introduction and development of new products and services and offers choice to the consumer. We have recognized this and are competing aggressively in those areas which have been opened to us by a relaxation in regulatory control.

We are observing, with great interest, the massive changes which are taking place in the structure and operations of the telecommunications industry in the United States. Although Canada's telecommunications industry differs in some respects from that of the United States, there is ample evidence to suggest that the American 'present' becomes the Canadian 'future'. We must, therefore, continue to explore a wide range of options and opportunities and ensure that our planning remains flexible and responsive.

Ours is not the goal of relatively high short-term returns at the expense of substantial long-term growth. Rather, as the rationalization of Microtel's structure and product line indicates, we are prepared to accept a period of relatively modest returns in the knowledge that by so doing we are laying the foundation for impressive future growth.

We are confident that our varied resources and the skills and expertise of our people will continue to make us the leading supplier of high quality telecommunications products and services in this province and a successful competitor in the world markets.

On behalf of the Board of Directors,

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

Burnaby, British Columbia
February 10, 1984

Our commitment to excellence — B.C. Tel's new Training Centre

Surrounded by modern classrooms on three levels, some of the more than 10,000 students and instructors who will be involved in B.C. Tel's 1984 training programs, relax between classes in the multi-use lounge, cafeteria and assembly area. The new Training Centre represents one aspect of the Company's commitment to excellence — the provision of superior training facilities for its employees and, through them, continuing expertise in the service of our customers.

Opportunity

A B.C. Tel microwave tower links the townsite of Tumbler Ridge in north-eastern B.C. with the outside world. The development of Tumbler Ridge — part of the north-east coal mega-project — provides B.C. Tel with a further opportunity to demonstrate its ability to serve the telecommunications needs of the province, its industries and its people.

Financial and Shareholder Information

TABLE OF CONTENTS

Financial Review

CONSOLIDATED EARNINGS

Consolidated earnings for 1983 amounted to $2.36 per ordinary share, compared to 1982 earnings of $2.11.

Both the telecommunications and the manufacturing segments contributed to the higher per share earnings this past year.

	1983	1982
Telecommunications	**$2.19**	$2.00
Manufacturing	**.17**	.11
	$2.36	$2.11

The improvement in earnings was accomplished in a period of slackened revenue growth and reduced sales, and was the result primarily of stringent cost control measures taken during the year.

TELECOMMUNICATIONS OPERATIONS

Operating Revenues

Operating revenues increased by only 8.1% in 1983, to $1,091.3 million compared to 1982 revenues of $1,009.4 million. This was a lower rate of increase than the Company had forecast in early 1983, when the region's economic recovery was expected to bring about a higher demand for telecommunications services.

Among the factors limiting revenue growth in 1983 were (1) a modest 2.7% gain in customer lines, (2) a recovery in long distance calling volumes of only 3.0% over the depressed levels of 1982, and (3) the 3% increase in basic monthly exchange rates and long distance rates within British Columbia that was implemented at mid year. Only an improvement in toll revenue sharing settlements with other telecommunications carriers added significantly to 1983 revenue growth.

Operating Expenses

Operating expenses during 1983 increased by 8.8% to $806.4 million from $741.3 million in 1982. In the areas of controllable expenses, the primary causes for the increase were payroll expenses and a one-time cost associated with the implementation of a decision to reduce the size of the work force by incentives for early staff retirements. The primary benefits of this decision will accrue in future years.

Depreciation expense increased by 9.6% in 1983 because of increased plant in service and increases in depreciation rates to effect a more suitable recovery of capital costs.

Higher operating expenses also reflected increases in operating taxes (property, capital and payroll related) which were up by 13.1% in 1983.

MANUFACTURING OPERATIONS

Sales

Microtel's sales in 1983 were reduced to $206.5 million from $243.6 million in 1982, because of cutbacks in capital spending by the major telephone companies which are Microtel's customers, reduced customer demand elsewhere and the rationalization of some of Microtel's resources as part of an overall strategy to improve profit margins.

Export sales totalled $25 million in 1983 compared to $35 million in 1982.

Costs and Expenses

Costs and expenses for 1983 totalled $194.4 million or 15.9% below the 1982 total of $231.3 million. Cost restraint programs were initiated throughout Microtel to counter the 1983 decline in sales and to improve profit margins on continuing product lines.

DEBT SERVICE COSTS

Consolidated debt service costs amounted to $96.0 million in 1983, 10.9% less than the total of $107.8 million incurred in 1982. The Company's borrowing requirements in 1983 were smaller than in the previous year because of the reduced size of the construction program, the mid-year issue of ordinary shares, and an improvement in the internal generation of funds required for construction. The

lower short-term borrowing rates that prevailed during 1983 also contributed to reducing overall debt service costs.

INCOME TAXES

Combined federal and provincial income taxes totalled $93.9 million for 1983, an increase of 12.2% over 1982 taxes of $83.7 million. The higher 1983 tax expense was because of the improvement in pre-tax profit, offset in part by a reduction in the surtax rate and an increase in the allowance for funds used during construction.

NET EARNINGS

Consolidated net earnings of $107.1 million in 1983 compared with $88.9 million for 1982. After increased 1983 allocations for preference and preferred dividends of $20.9 million ($16.7 million in 1982), reflecting additional preferred shares issued in the latter part of 1982, net earnings for ordinary shares amounted to $86.2 million ($72.2 million in 1982).

Ordinary share dividends for 1983 were unchanged from the previous year's level of $1.60 per share; however, an increase of 2.3 million in the average number of shares outstanding during 1983 resulted in ordinary share dividend appropriations of $58.0 million for the year compared with a 1982 total of $54.8 million.

The balance of 1983 earnings reinvested amounted to $28.2 million, compared to the corresponding 1982 balance of $17.4 million.

RATES OF RETURN

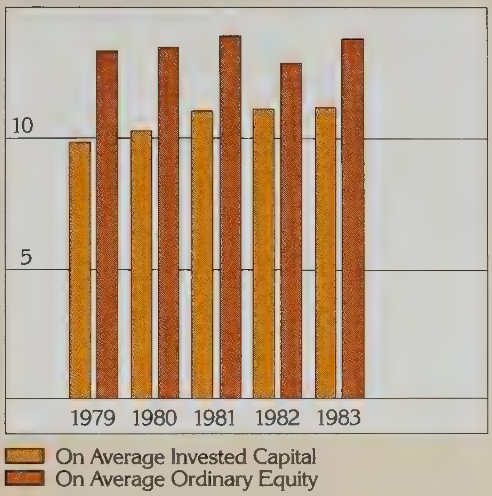
The rate of return on average invested capital in 1983 increased to 11.18% from 11.05% in 1982. The rate of return on average ordinary equity improved also, to 13.77% from a return of 12.81% in 1982.

CHANGES IN FINANCIAL POSITION

Financing of the Company's 1983 construction program was effected through cash flow from operations to the extent of $248.8 million or 66%. This compared with $245.6 million or 57% in 1982, when capital expenditures were at a higher level.

The balance of funds required was secured in total through the issue of additional ordinary shares in June, 1983, the effect of which was to reduce the Company's overall debt ratio to 54% by year-end, from last year's ratio of 56%.

Rates of Return *(Percentage)*



Management Report

To Our Shareholders:

Management is responsible to the Board of Directors for the preparation of the consolidated financial statements of the Company and its subsidiaries. These statements which have been prepared in accordance with generally accepted accounting principles necessarily include some amounts based on estimates and judgements. Financial information presented elsewhere in this Annual Report is consistent with that in the consolidated financial statements.

The Company maintains a system of internal control which provides management with reasonable assurance that assets are safeguarded and that reliable financial records are maintained. This system includes written policies and procedures, an organizational structure that segregates duties, and a comprehensive program of periodic audits by the internal auditors. The Company has also instituted policies and guidelines which require employees to maintain the highest ethical standards.

The Company's independent auditors, Arthur Andersen & Co., have been appointed by the shareholders to express an opinion as to whether these financial statements present fairly the Company's financial position and operating results in accordance with generally accepted accounting principles consistently applied. Their report is included below.

The Board of Directors has reviewed and approved these financial statements. To assist the Board in meeting its responsibility, it has appointed an audit committee which is composed entirely of outside directors. The committee meets periodically with management, the internal auditors and the independent auditors to review internal accounting controls, audit results and accounting principles and practices.

D. B. McNeil
Vice-President – Corporate Finance and Treasurer

Auditors' Report

To the Shareholders of British Columbia Telephone Company

We have examined the consolidated balance sheet of BRITISH COLUMBIA TELEPHONE COMPANY (incorporated under an Act of the Parliament of Canada) and its subsidiaries as of December 31, 1983 and 1982, and the related consolidated statements of earnings and earnings retained for use in the business and changes in financial position for the years then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements appearing on pages 23 to 35, inclusive, present fairly the financial position of the companies as of December 31, 1983 and 1982, and the results of their operations and the changes in their financial position for the years then ended, in accordance with generally accepted accounting principles consistently applied during the periods.

Vancouver, Canada
January 27, 1984

ARTHUR ANDERSEN & CO.,
CHARTERED ACCOUNTANTS

Consolidated Statement of Earnings and Earnings Retained for Use in the Business

For the years ended December 31

		1983	1982
		($ Millions)	
Telecommunications Operations	*Operating revenues (Note 2)*	**$1,091.3**	$1,009.4
	Operating expenses (Note 3)	**806.4**	741.3
	Telecommunications operating earnings	**284.9**	268.1
Manufacturing Operations	*Sales*	**206.5**	243.6
	Costs and expenses		
	Cost of sales	**170.7**	209.5
	Selling and administrative expenses	**23.7**	21.8
		194.4	231.3
	Manufacturing operating earnings	**12.1**	12.3
Combined Operating Earnings		**297.0**	280.4
	Debt service costs — net (Note 4)	**96.0**	107.8
	Earnings before income taxes	**201.0**	172.6
	Income taxes (Note 5)	**93.9**	83.7
	Net earnings	**107.1**	88.9
	Less — Preference and preferred share dividends	**20.9**	16.7
Ordinary share earnings		**86.2**	72.2
Earnings Retained for Use in the Business	Balance at beginning of year as previously reported	**195.4**	178.9
	Less — Prior period adjustment (Note 16)	**1.5**	1.5
	As restated	**193.9**	177.4
		280.1	249.6
	Less — Ordinary share dividends	**58.0**	54.8
	— Share issue expense	**1.0**	.9
	Balance at end of year	**$ 221.1**	$ 193.9
Earnings per Ordinary Share	Basic	**$ 2.36**	$ 2.11
	Fully diluted	**$ 2.35**	$ 2.10
Average Ordinary Shares Outstanding		**36,561,000**	34,265,000

Consolidated Balance Sheet

As of December 31

ASSETS		1983	1982
		($ Millions)	
Telecommunications Property, *at cost*	Buildings, plant and equipment *(Note 8b)*	**$3,139.2**	$2,934.2
	Less — Accumulated depreciation	**1,009.1**	879.0
		2,130.1	2,055.2
	Land	**24.0**	18.6
	Property under construction	**270.7**	209.6
	Material and supplies	**26.0**	29.2
		2,450.8	2,312.6
Manufacturing Property, *at cost*	Plant and equipment	**69.1**	63.9
	Less — Accumulated depreciation	**32.1**	28.9
		37.0	35.0
		2,487.8	2,347.6
Investments and Other Assets, *at cost*	Telesat Canada	**3.3**	3.3
	Instalment contracts and other	**7.8**	1.0
		11.1	4.3
Current Assets	Accounts receivable	**191.6**	156.3
	Accounts receivable — affiliated companies	**5.8**	5.0
	Inventories *(Note 6)*	**45.7**	56.1
	Prepaid expenses	**12.0**	11.0
		255.1	228.4
Deferred Charges	Unrealized and deferred losses on foreign exchange, less amortization	**9.4**	9.9
	Unamortized cost of issuing debt securities	**10.0**	10.9
		19.4	20.8
		$2,773.4	$2,601.1

Approved by the Directors,

J. F. MacFarlane *Director*

John W. Pitts *Director*

CAPITALIZATION AND LIABILITIES

		1983	1982
		($ Millions)	
Capitalization	Equity *(Note 7)*		
	Ordinary shares	$ 680.2	$ 577.7
	Preference and preferred shares	272.7	280.7
	Total equity	952.9	858.4
	Long-term debt *(Note 8)*	1,060.5	924.0
		2,013.4	1,782.4
Current Liabilities	Cheques issued in excess of bank balances	23.8	13.0
	Short-term obligations *(Note 9)*	47.1	170.4
	Accounts payable	101.2	84.1
	Accounts payable — affiliated companies	3.1	4.0
	Income taxes payable	39.0	21.1
	Dividends payable	18.1	17.1
	Accrued interest	23.7	24.0
	Other accrued liabilities	43.2	36.9
	Unearned revenues	44.8	41.8
		344.0	412.4
Income Taxes Deferred		416.0	406.3
Commitments *(Note 11)*			
		$2,773.4	$2,601.1

Consolidated Statement of Changes in Financial Position

For the years ended December 31

		1983	1982
		($ Millions)	
Sources of Working Capital	*Operations*		
	Ordinary share earnings	$ 86.2	$ 72.2
	Add (deduct) items not requiring working capital		
	Depreciation	231.6	211.2
	Income taxes deferred	9.7	25.2
	Allowance for funds used during construction	(16.9)	(11.4)
	Other, net	(3.8)	3.2
		306.8	300.4
	Less — Ordinary share dividends	58.0	54.8
		248.8	245.6
	Financing proceeds, net of related costs and expenses		
	Ordinary shares issued		
	— for cash	73.7	1.5
	— on conversion of preferred shares	.1	.4
	Preferred shares issued for cash	—	49.2
	Long-term debt	153.4	150.5
		227.2	201.6
	Less — redemptions, conversions or current maturities of long-term debt and preferred shares	24.9	32.2
		202.3	169.4
		451.1	415.0
Application of Working Capital	*Capital expenditures*		
	Gross capital expenditures	379.8	433.9
	Increase (decrease) in material and supplies	(3.2)	5.2
		376.6	439.1
	Less — Salvage value of plant retired, net	3.7	14.4
	— Allowance for funds used during construction	16.9	11.4
		356.0	413.3
	Increase in working capital	(95.1)	(1.7)
	Working capital deficiency, beginning of year	184.0	185.7
	Working capital deficiency, end of year	$ 88.9	$184.0
Working Capital Deficiency	Represented by:		
	Current liabilities	344.0	412.4
	Current assets	255.1	228.4
	Working capital deficiency	$ 88.9	$184.0

Notes to Consolidated Financial Statements

1. Summary of Significant Accounting Policies

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Canada, and in conformity with prevailing practices in the Canadian telecommunications industry. These statements conform in all material respects with International Accounting Standards.

British Columbia Telephone Company is regulated by the Canadian Radio-television and Telecommunications Commission (CRTC). In its role as regulator, the CRTC sets allowable rates of return, approves equity financing, approves tariffs for certain of the Company's goods and services and periodically issues directives which affect the accounting treatment of specific items in the Company's accounts.

(a) **Earnings Per Ordinary Share**

Earnings per ordinary share have been computed based on the average number of shares outstanding each month during the period. Fully diluted earnings per ordinary share reflect the potential full conversion of the $2.32 convertible subordinate preferred shares.

(b) **Consolidation**

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries, AEL Microtel Limited (together with its wholly-owned subsidiaries, Viscount Industries Limited, and Microtel Pacific Research Limited), North-west Telephone Company, and Canadian Telephones and Supplies Ltd. (together with its wholly-owned subsidiary Cantel Leasing Ltd.). The excess of the cost of shares of subsidiaries over the Company's equity at the date of acquisition is included in telecommunications property and is being amortized over periods not exceeding thirty years. Such amortization amounted to $700,000 in 1983 ($700,000 – 1982).

All significant intercompany transactions have been eliminated except for purchases of telecommunications equipment and supplies by British Columbia Telephone Company from AEL Microtel Limited (Microtel) which are reflected in the consolidated balance sheet at cost to the parent, and are included in manufacturing sales in the consolidated statement of earnings *(Note 14)*. To the extent that any income on these sales has not been offset by depreciation and other operating expenses, it remains in consolidated earnings and earnings retained for use in the business.

(c) **Telecommunications Property**

Telecommunications property is recorded at historical cost and includes certain payroll costs and general overheads applicable to the construction activity. In addition, the Company capitalizes an amount for the cost of funds used to finance construction. This allowance for funds used during construction (AFC) is included in income by way of an offset against debt service costs. The capitalization rate (defined by the CRTC as the rate of return on average invested capital earned by the utility during the preceding fiscal year) was 11.13% in 1983 (11.09% – 1982). Such income is not realized in cash currently but will be realized over the service life of the property.

No gain or loss is recognized in the statement of earnings when depreciable telecommunications property is retired. The original cost of the property is either

1. Summary of Significant Accounting Policies *(continued)*

charged to accumulated depreciation or, when the property is reusable, to material and supplies.

(d) **Depreciation**

Depreciation rates for telecommunications property are determined by a continuing program of engineering studies for each class of property, according to year of placing in service and estimated useful life. Depreciation provisions are calculated on a straight-line basis using such rates. The composite depreciation rate was 7.44% for 1983 (7.32% – 1982).

Depreciation on manufacturing property is provided over the estimated useful lives of the assets using a straight-line basis.

(e) **Investment in Telesat Canada**

The investment in 330,000 common shares of Telesat Canada, representing 5.5% of the total outstanding shares, is recorded at original cost. There is no quoted market value for this investment, however, its estimated book value was $6,900,000 as at December 31, 1983 ($6,500,000 – 1982).

(f) **Income Taxes**

The Company and its subsidiaries use the deferral method of income tax allocation by providing for deferred income taxes on all timing differences between accounting income and taxable income except for AFC where no deferred tax is provided as no such provision is allowed for regulatory purposes. *(Note 5)*

(g) **Translation of Foreign Currencies**

Trade transactions completed in foreign currencies are reflected in Canadian dollars at the rates prevailing at the time of the transactions. Debt payable in U.S. funds is reflected in the financial statements at the Canadian dollar equivalent at the rate of exchange prevailing at the balance sheet date.

Currency gains and losses are included in net earnings for the year except for gains and losses on long-term debt which are amortized over the remaining lives of the related issues. *(Note 4)*

The Company's total foreign currency indebtedness as at December 31, 1983 was $82,500,000 (U.S.) ($77,100,000 U.S. – 1982).

(h) **Research and Development**

Product and service development expenditures which in Management's opinion result in identifiable telecommunications operations assets have been deferred. Such deferred expenditures amounted to $2,500,000 at December 31, 1983 ($5,500,000 – 1982) and will be amortized over the expected life of the related products and services. Amortization of these amounts to date has not been material.

All other research expenditures for development and improvement of new and existing products and services are expensed as incurred. The amount expensed in 1983 was $16,400,000 ($14,900,000 – 1982).

(i) **Leases**

Leases are classified as capital or operating leases depending upon the terms of the contract. Assets recorded under capital leases are amortized on a straight-line basis over the life of the lease. Obligations recorded under capital leases are reduced by rental payments net of imputed interest. Assets, liabilities and amortization related to these leases are not material in amount.

Long-term lease rental agreements on equipment leased to customers are accounted for as operating leases. Income is recognized over the term of the lease, generally five or ten years. The equipment is depreciated in accordance with existing depreciation policy. Assets, liabilities and amortization related to these leases are not material in amount.

2. Operating Revenues – Telecommunications Operations

	1983	1982
	($ Millions)	
Local service	**$ 439.3**	$ 424.0
Toll service	**604.0**	555.5
Other, net of uncollectibles	**48.0**	29.9
	$1,091.3	$1,009.4

3. Operating Expenses — Telecommunications Operations

	1983	1982
	($ Millions)	
Operations	$ 528.3	$ 489.1
Depreciation	221.1	201.8
Provincial, municipal and other taxes	57.0	50.4
	$ 806.4	$ 741.3

4. Debt Service Costs

	1983	1982
	($ Millions)	
Interest on long-term debt	$ 106.7	$ 92.5
Other interest	7.7	29.4
Amortization of unrealized and deferred losses on foreign exchange	1.5	1.4
Amortization of issue costs	1.1	.8
	117.0	124.1
Less – Allowance for funds used during construction	16.9	11.4
– Service charges on overdue accounts	4.1	4.9
	$ 96.0	$ 107.8

5. Income Taxes

	1983	1982
	($ Millions)	
Currently Payable – Federal	$ 57.9	$ 45.8
– Provincial	25.6	19.8
Deferred	10.4	18.1
	$ 93.9	$ 83.7

A reconciliation of the Canadian statutory income tax rate to the effective income tax rate is as follows:	1983	1982
Combined basic federal and provincial income tax rate	52.9%	53.8%
Allowance for funds used during construction	(4.4)	(3.5)
Tax incentives for scientific research	(1.2)	(1.2)
Other	(.6)	(.6)
Effective income tax rate per Consolidated Statement of Earnings	46.7%	48.5%

6. Inventories — Manufacturing Operations

Inventories are valued at the lower of cost and net realizable value:

	1983	1982
	($ Millions)	
Finished goods	$ 4.8	$ 8.5
Uncompleted contracts and work in process	31.6	40.6
Raw materials	9.3	7.0
	$ 45.7	$ 56.1

7. Equity

(a) **Details of Shareholders' Equity**

Ordinary		**1983**	1982
		($ Millions)	
Ordinary Shares without par value: 38,175,411 shares outstanding (34,322,022 – 1982)		**$456.0**	$381.3
Earnings retained for use in the business		**221.1**	193.9
Contributed surplus *(Note 7c)*		**3.1**	2.5
		680.2	577.7
Preference and Preferred	Redemption Premium *(Note 7e)*		
$2.32 Cumulative Redeemable Convertible Subordinate Preferred Shares Par Value of $25 Each	—	**1.0**	1.2
Cumulative Preference and Preferred Shares			
Par Value of $100 Each			
6% Preference	10%	**1.0**	1.0
4⅜% Preferred	4%	**6.0**	6.0
4½% Preferred	4%	**5.0**	5.0
4¾% Preferred	5%	**7.5**	7.5
4¾% Preferred (Series 1956)	4%	**7.5**	7.5
5.15% Preferred	5%	**12.0**	12.0
5¾% Preferred	4%	**10.0**	10.0
6% Preferred	5%	**4.5**	4.5
Par Value of $25 Each			
4.84% Preferred	4%	**20.0**	20.0
6.80% Preferred	6%	**10.0**	10.0
7% Preferred	—	**25.0**	27.5
7.04% Preferred	7%	**20.0**	20.0
7.40% Preferred	5%	**44.0**	45.5
7.65% Preferred	5%	**29.5**	30.5
8¾% Preferred	—	**1.7**	3.4
10.16% Preferred	3%	**18.0**	19.1
11.24% Preferred (Not redeemable before June 15, 1990)	5%	**50.0**	50.0
		272.7	280.7
Total Equity		**$952.9**	$858.4

(b) **Authorized Capital**

The Company is permitted, subject to directors' and shareholders' approval, to issue shares with or without par value up to the nominal amount of $1,250,000,000. As at December 31, 1983 the total approved share capital of the Company was $1,000,000,000 ($750,000,000 – 1982).

(c) **Changes During 1983**

Ordinary shares

— 3,589,743 shares (nil – 1982) were issued in June 1983 for $70,000,000.

— 10,394 shares (29,366 – 1982) were issued during 1983 on conversion of 5,197 $2.32 convertible subordinate preferred shares (14,683 – 1982).

— 253,252 shares (109,151 – 1982) were issued during 1983 for $4,611,000 ($1,600,000 – 1982) through the Dividend Reinvestment and Share Purchase Plan and the Employee Share Purchase Plan.

Preferred shares

— Mandatory redemptions of preferred shares in the amount of $5,700,000 were made in 1983 and 1982 as described in Note 7e. Included in the 1983 redemptions were 15,300 – 10.16% preferred shares which were redeemed for $400,000. These shares were acquired in 1982 and were used to reduce the Company's 1983 redemption requirements.

— the Company redeemed 40,200 – 7.65% preferred shares in 1983 (40,200 in 1982) in the amount of $1,000,000 ($1,000,000 – 1982) and 60,000 – 7.40% preferred shares (60,000 – 1982) in the amount of $1,500,000 ($1,500,000 – 1982). These redemptions resulted in $661,000 of contributed surplus ($1,300,000 – 1982).

7. Equity *(continued)*

(d) **Ordinary Shares Reserved**

At December 31, 1983, the following shares remained reserved:

— 1,999,806 shares under the Company's Employee Share Purchase Plan as approved by the CRTC on June 30, 1983. Subscriptions were received for a maximum of 780,532 shares to be issued over a two-year period. Subscriptions totalling 27,571 shares have subsequently been cancelled. The purchase price per share will be 85% of the average market price on the first day or last day of each purchase period, whichever is the lesser, but not less than fully diluted book value at the commencement of each purchase period. During the year, the Company issued 194 shares under this plan, at a price of $17.29 per share.

— 490,335 shares under the Dividend Reinvestment and Share Purchase Plan as approved by the CRTC on October 28, 1982. The purchase price for the plan is based on the average market price for the five days preceding the investment date.

— 82,962 ordinary shares for the conversion of the $2.32 convertible subordinate preferred shares. The $2.32 convertible preferred shares are convertible on the basis of two ordinary for each preferred share at any time prior to July 1, 1986.

(e) **Preferred Share Redemption Requirements and Purchase Obligations**

Redemption requirements or purchase obligations apply to seven issues:

— $2.32 convertible subordinate preferred shares are subject to (a) a purchase obligation requiring the Company to purchase specified quantities of such shares in the open market at a price not exceeding $25 per share, to the extent that they are available in each 12-month period, and (b) redemption at the option of the Company at any time at a premium of 8% to June 30, 1982, declining annually thereafter to par value after June 30, 1986.

— 7% preferred shares are subject to redemption of 100,000 shares, at $25 per share, each year until 1985, with the balance of 800,000 shares due in 1986.

— 7.40% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12-month period 60,000 shares at a price not exceeding $25 per share excluding costs of purchase.

— 7.65% preferred shares are subject to a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 12-month period, 40,200 shares at a price not exceeding $25 per share excluding costs of purchase.

— 8¾% preferred shares are subject to redemption of $1,700,000 each year, to retire the issue by 1984.

— 10.16% preferred shares are subject to mandatory redemption of 60,000 shares at $25 per share each year on September 1 until 1995. Shares acquired or redeemed by the Company during each 12-month period may be applied, at the Company's option, to reduce the number of shares required for mandatory redemption. Redemption at the option of the Company in any amount on and after September 1, 1980 requires a premium of 5% declining annually thereafter to par after September 1, 1985.

— 11.24% preferred shares are subject to (a) a purchase obligation requiring the Company to make all reasonable efforts to purchase in each 3-month period 15,000 shares at a price not exceeding $25 per share excluding costs of purchase and (b) a mandatory redemption on June 15, 1990 of any shares tendered on or before May 15, 1990 at a price of $25 per share. Commencing July 1, 1990 and thereafter, the Company shall make all reasonable efforts to purchase 4% per annum of the shares outstanding immediately after the June 15, 1990 redemption at a price not exceeding $25 per share excluding costs of purchase.

Other issues are redeemable at the stated redemption premium only at the Company's option.

8. Long-Term Debt

(a) **Details of Long-Term Debt**

	1983	1982
	($ Millions)	
British Columbia Telephone Company		
First Mortgage Bonds		
Series G 5¼% due November 1, 1983	**$ —**	$ 20.0
Series H 6% due September 15, 1984	**15.0**	15.0
Series I 5¾% due August 1, 1985	**15.0**	15.0
Series J 5¾% due July 15, 1986	**20.0**	20.0
Series K 5⅝% due April 15, 1988	**20.0**	20.0
Series L 6¾% due October 15, 1989	**30.0**	30.0
Series M 6⅜% due March 15, 1991	**30.0**	30.0
Series N 9⅛% due April 1, 1990	**3.3**	3.3
Series O 9⅝% due November 15, 1992	**18.0**	18.0
Series P 9⅛% due November 15, 1992	**.5**	.5
Series Q 8¼% due March 1, 1994	**35.0**	35.0
Series S 7⅞% due November 15, 1995	**25.0**	25.0
Series T 8⅝% due October 15, 1993	**40.0**	40.0
Series U 8⅛% due November 1, 1996 ($20 million U.S. funds)	**24.9**	24.6
Series V 9% due October 1, 1997	**40.0**	40.0
Series X 9¼% due April 15, 1998	**35.0**	35.0
Series Y 11% due January 15, 1996	**45.0**	45.0
Series AA 10¼% due April 1, 1995	**30.0**	30.0
Series AC 10½% due February 1, 1982-96 ($26.6 million U.S. funds)	**33.1**	34.7
Series AD 10¼% due October 15, 2001	**60.0**	60.0
Series AE 9.70% due June 15, 1999	**50.0**	50.0
Series AF 9⅞% due November 1, 2003	**75.0**	75.0
Series AG 14¼% due April 1, 1986	**75.0**	75.0
Series AH 16⅜% due April 1, 1987	**100.0**	100.0
Series AI 17¼% due September 1, 1988	**50.0**	50.0
	869.8	891.1
Promissory Notes and Bank Loans		
Amount reclassified *(Note 9)*	**165.0**	50.0
Issued at varying rates of interest from 12.00% to 12.75% and maturing on varying dates from 1985 to 1988	**4.0**	—
	169.0	50.0
AEL Microtel Limited		
Interest-rate conversion agreement due 1990 with an effective fixed rate of interest of approximately 12.1%	**20.0**	—
Other at varying rates of interest from 6% to 9.75%	**.8**	.9
	20.8	.9
Amounts due under capitalized leases	**19.5**	4.9
Total Long-Term Debt	**1,079.1**	946.9
Less – Current portion *(Note 9)*	**18.6**	22.9
Long-Term Debt	**$1,060.5**	$924.0

8. Long-Term Debt *(continued)*

(b) **First Mortgage Bond Issue Requirements**

The Company's telecommunications property is subject to liens under the Deed of Trust and Mortgage under which the First Mortgage Bonds are issued. The Deed of Trust and Mortgage requires annually either a sinking fund payment of 1% of the principal amount of bonds outstanding or the pledge of additional unmortgaged property in the amount of 1½% of the principal. Company practice has been to pledge additional unmortgaged property. Additional First Mortgage Bond issues also must meet the interest coverage ratio standards specified under the Deed of Trust and Mortgage.

(c) **Redemption Provisions**

The First Mortgage Bonds, except for Series AG and AH, may be redeemed prior to maturity at various premiums to a maximum of 7.65%. Such redemptions cannot be made if the funds borrowed for refunding purposes have an interest cost that is less than the interest cost of the bonds redeemed.

The Series AI Bonds are redeemable at the option of the Company on and after September 1, 1987.

(d) **Long-Term Debt Maturities**

The Series AC Bonds mature serially in the amount of $1,700,000 (U.S.) on February 1, in each of the years 1982 to 1995 and the remaining $6,100,000 (U.S.) matures on February 1, 1996.

Series AG and Series AH are extendable at the holder's option for a further five-year term.

The long-term debt maturities (exclusive of promissory notes, bank loans and capitalized leases) during each of the next five years are:

	($ Millions)
1984	$ 17.2
1985	$ 17.2
1986 *(Including Series AG)*	$ 97.2
1987 *(Including Series AH)*	$102.2
1988	$ 72.2

(e) **Promissory Notes**

The promissory notes are issued to obtain funds for general corporate purposes including the cost of extension and improvements to the plant and properties of the Company. These borrowings will be repaid from the proceeds of long-term financings. See Note 18 – Subsequent Event – regarding the sale of $70,000,000 First Mortgage Bonds in 1984.

The Company has long term agreements for revolving loan facilities and at December 31, 1983, the agreements totalled $165,000,000 (1982 – $50,000,000). Drawdowns under the agreements are by way of promissory notes issued at either fixed or floating interest rates for periods of up to five years. Short-term obligations (Note 9) have been reduced by $165,000,000 (1982 – $50,000,000) to reflect these arrangements.

9. Short-Term Obligations

Amounts falling due for redemption within one year including short-term indebtedness pending permanent financing are as follows:

	1983	1982
	($ Millions)	
Current portion of long-term debt *(Note 8)*		
First Mortgage Bonds, current maturities		
5¼% series G due November 1, 1983	$ —	$ 20.0
6% series H due September 15, 1984	15.0	—
10½% series AC due February 1, 1984 ($1,700,000 U.S.)	2.1	2.1
Current maturities of long-term debt of subsidiaries	.1	—
Amounts due under capitalized equipment leases	1.4	.8
	18.6	22.9
Bank loans, 9.75% to 11.00% interest	25.0	14.2
Bank loans ($18,475,000 U.S.), 9.59% to 11.50% interest	23.0	15.9
Promissory Notes, current maturities, 9.25% to 10.625% interest	143.0	167.4
Amounts held under Employee Share Purchase Plan	2.5	—
	212.1	220.4
Less: Amount reclassified as long-term debt *(Note 8)*	165.0	50.0
	$ 47.1	$170.4

Short-term obligations are included in total capitalization for regulatory purposes in computing capitalization ratios and rates of return on capital.

10. Lines of Credit

At December 31, 1983, the Company had in place aggregate lines of credit totalling $461,500,000 ($353,000,000 – 1982). The Company maintains unused lines of credit with Chartered Banks at least equivalent to the aggregate of promissory notes outstanding.

11. Commitments

The Company estimates the construction programs for additional plant and facilities to cost $368,800,000 in 1984. Substantial purchase commitments have been made in connection with these programs.

12. Pension Plans

The Company maintains a number of pension plans covering substantially all employees, subject to conditions related to age and period of service.

The annual accrued pension costs for all management and exempt employees and the bargaining unit employees in Manufacturing Operations are placed in trustee funds, the value of which exceeded the benefits vested with the employees at the date of the last actuarial review. The pension plans for bargaining unit employees in Telecommunications Operations require that the Company contribute a fixed percentage of gross employee earnings without liability for the benefits payable.

The Company is governed by and complies with the Canada Pension Benefits Standards Act which contains provisions regarding the solvency of pension plans. Actuarial studies are prepared at least every three years and experience deficiencies, if any, in the plans are funded and amortized over the succeeding five-year period. Based on the most recent actuarial valuations, as at December 31, 1983, the pension plan for management and exempt employees in Telecommunications Operations has an estimated unfunded liability of $23,600,000 ($17,500,000 – 1982).

Total pension costs were $29,300,000 ($30,700,000 – 1982) which include $800,000 ($4,000,000 – 1982) for amortization of past service and experience deficiencies.

13. Remuneration of Directors and Officers

During the year, 11 directors of British Columbia Telephone Company received aggregate remuneration of $149,000 ($95,000 – 1982) as directors of the Company and 15 officers received aggregate remuneration of $1,328,000 ($1,252,000 – 1982). None of the officers of the Company received remuneration from subsidiary companies.

14. Related Party Transactions

Transactions with related parties (all affiliates of GTE Corporation) for the year ended December 31, 1983 were purchases and sales of telecommunications equipment and supplies *(Note 1)*, directory advertising commissions, royalties on equipment manufactured under licence and payments for services rendered under cost-sharing agreements. Approximately 62% (61% – 1982) of the sales and 14% (20% – 1982) of the purchases of Microtel were to and from related parties. Such sales include $108,200,000 to the Company for 1983 ($110,100,000 – 1982). Microtel sales of telecommunications equipment to the Company are at prices and terms as low as those offered to Microtel's most favoured customers for like materials and services under comparable conditions.

15. Industry Segments Information

British Columbia Telephone Company and its subsidiary companies operate principally in two business segments:

1. Telecommunications operations, which include local exchange and long distance telephone services, teletype, transmission of facsimile and data and other telecommunications services; and
2. Telecommunications equipment manufacturing, which includes research and development and sales of telecommunications equipment, training, engineering, installation services and distributed products.

The following table sets forth revenues, operating profits and supplementary data for the years ended December 31, 1983 and 1982 for each of the company's business segments:

	Telecommunications Operations		Manufacturing Operations		Consolidated Operations	
	1983	1982	**1983**	1982	**1983**	1982
			($ Millions)			
Sales to the public	**$1,091.3**	$1,009.4	**$ 98.3**	$133.5	**$1,189.6**	$1,142.9
Inter-segment sales	**—**	—	**108.2**	110.1	**108.2**	110.1
Total revenues	**1,091.3**	1,009.4	**206.5**	243.6	**1,297.8**	1,253.0
Segment operating profit	**284.9**	268.1	**12.1**	12.3	**297.0**	280.4
Interest charges	**(91.6)**	(99.5)	**(4.4)**	(8.3)	**(96.0)**	(107.8)
Income taxes	**(92.3)**	(83.4)	**(1.6)**	(.3)	**(93.9)**	(83.7)
Net earnings	**$ 101.0**	$ 85.2	**$ 6.1**	$ 3.7	**$ 107.1**	$ 88.9
Identifiable assets	**$2,651.2**	$2,471.3	**$122.2**	$129.8	**$2,773.4**	$2,601.1
Capital expenditures	**$ 371.8**	$ 424.8	**$ 8.0**	$ 9.1		
Depreciation and amortization	**$ 221.1**	$ 201.8	**$ 5.5**	$ 4.3		

Telecommunications Operations are conducted in the Province of British Columbia. Manufacturing Operations have plants located in the Provinces of British Columbia, Saskatchewan and Ontario. 26% of manufacturing sales to the public were to the export market (26% – 1982).

16. Prior Period Adjustment

Provision has been made for proposed income tax reassessments for the years 1978-1980 inclusive by increasing tax currently payable by $2,400,000. This increase, representing timing differences, has been charged to Income Taxes Deferred. The estimated interest on the tax payable, amounting to $1,528,000, has been charged to Earnings Retained for Use in the Business as a prior period adjustment. The balance of retained earnings at January 1, 1982 has been restated accordingly.

17. Prior Year Presentation

The 1982 amounts have been reclassified, where applicable, to conform with the 1983 presentation.

18. Subsequent Event

On December 28, 1983, the Company entered into an agreement for the sale of $70,000,000 First Mortgage Bonds, Series AK (Retractable) due 1999, with delivery on February 8, 1984. The annual interest rate will be 12¼% for the first five year period. Interest rates for each of the five year periods commencing February 15, 1989 and February 15, 1994 will be determined by the Company, and the Bonds will be retractable at the option of the bondholders on those dates.

Financial Supplement

Quarterly Financial Data

	Three Months Ended	March 31	June 30	Sept. 30	Dec. 31	Total 1983
			($ Millions)			
Telecommunications Operations	Operating revenues	$ 260.3	$ 269.7	$ 278.4	$ 282.9	$1,091.3
	Operating expenses	199.7	202.6	203.4	200.7	806.4
	Telecommunications operating earnings	60.6	67.1	75.0	82.2	284.9
Manufacturing Operations	Sales	46.2	51.3	47.2	61.8	206.5
	Costs and expenses	45.8	49.4	45.0	54.2	194.4
	Manufacturing operating earnings	.4	1.9	2.2	7.6	12.1
Combined Operating Earnings		61.0	69.0	77.2	89.8	297.0
	Debt service costs	24.5	23.7	23.7	24.1	96.0
	Earnings before income taxes	36.5	45.3	53.5	65.7	201.0
	Income taxes	17.0	21.1	25.3	30.5	93.9
	Net earnings	19.5	24.2	28.2	35.2	107.1
	Less — Preference and preferred share dividends	5.3	5.2	5.2	5.2	20.9
Ordinary Share Earnings		$ 14.2	$ 19.0	$ 23.0	$ 30.0	$ 86.2
Earnings Per Ordinary Share	— basic	$ .41	$ .55	$ .60	$ .80	$ 2.36
	— fully diluted	$ .41	$ .55	$ .60	$ .79	$ 2.35
Average Ordinary Shares Outstanding *(Millions)*		34.4	34.4	38.1	38.2	36.6

Current Cost Reporting

(a) Introduction

The object of current cost reporting is to provide an assessment of the effect of changing prices on the Company's operations.

During a period of inflation, the current costs of property subject to depreciation may be greater than the costs recorded. Part of that property, however, may have been financed by debt — resulting in a decline in real terms in the amount to be repaid.

(b) A New Approach

Effective 1983 new standards of current cost reporting have been recommended for Canada's major corporations by the Canadian Institute of Chartered Accountants. Initially the standards are regarded as experimental in nature. The following information has been determined in accordance with the new standards.

(c) The Effect of Current Cost on Earnings Statement

Because provisions for depreciation in the Company's historical statements do not take into account the increased cost of replacing the Company's telecommunications

and manufacturing properties, the following adjustment to the historical earnings statement is made on a current cost basis. (The effect of restating inventories at current cost is not material):

	1983 *($ Millions)*
Ordinary share earnings	$ 86.2
Current cost adjustment (Depreciation)	(188.1)
Ordinary share earnings (loss) under current cost basis	$(101.9)

(d) Increase in the Current Cost of Property and Inventories

Under current cost accounting the carrying values of property and inventories at December 31, 1983, represents the Company's estimate of the current cost of maintaining sufficient assets to continue operations at current levels. The following table indicates that the current cost of property and inventory increased at a rate greater than inflation. Ordinary shareholders' equity increased in real terms by $372.1 million determined as follows:

	1983 *($ Millions)*
Increase in the current cost amounts of telecommunications property, manufacturing property and inventories	$ 585.9
Effect of general inflation	(213.8)
Excess of increase in current cost over the effect of general inflation	$ 372.1

(e) General Purchasing Power, Gain or Loss

Because the Company financed part of its operations with debt and because of continuing inflation, the amount of that debt declined in real terms. This resulted in a further "real" increase in ordinary shareholders' equity of $71.4 million (a gain in general purchasing power from having net monetary liabilities). The amount has been calculated, using the consumer price index, applied to the average net monetary liabilities outstanding during the year.

(f) Financing Adjustment

The Company has financed its operation through a combination of shareholders' funds and borrowed funds. If such financing continues, shareholders will not be called on to provide the whole of the increase in capital needed to support the higher current cost of inventories and telecommunications and manufacturing property. The financing adjustment represents the amount of the changes in the current cost of property and inventories which have been financed through debt. In this case $206.3 million of the $585.9 million increase has been financed through debt. As pointed out, this benefit falls to the ordinary shareholders since they will not be called on to provide the increase in capital required.

(g) Schedule of Assets on a Current Cost Basis as at December 31

	Historical Cost Basis 1983	Current Cost Basis 1983
	($ Millions)	
Telecommunications Property (net)	$2,450.7	$4,483.6
Manufacturing Property (net) & Inventories	$ 82.7	$ 99.2
Net Assets (ordinary shareholders' equity)	$ 680.2	$2,729.6

The current cost estimates for Buildings, Plant and Equipment were developed by restating the historical cost property balances from the date of being placed in service, through the use of specific price indices based on the Company's own experiences. In some instances, where internal indices were unavailable, external indices were used. Land is valued at its current or assessed worth for taxes. Current cost depreciation is charged to the current cost income statement on the same basis as in the historical cost statement but is calculated on the basis of the average current cost for 1983. Inventories are valued at their current reproduction cost.

(h) Conclusion

Management concludes from the above that there has been no significant impairment of capital employed in the business as a result of general inflation or changes in specific prices experienced. However, absolute reliance should not be placed on the ordinary shareholder equity gains cited above since they are:

— based on management estimates

— not available for distribution to the ordinary shareholders.

Employee Costs

		Telecommunications(1) 1983	Telecommunications(1) 1982	Manufacturing 1983	Manufacturing 1982	Consolidated 1983	Consolidated 1982
				($ Millions)			
Total Employee Costs Analysed as Follows:		**$ 501.6**	$ 470.6	**$ 79.0**	$ 90.3	**$ 580.6**	$ 560.9
Salaries and Wages as Payment for:	Time on the job	**$ 351.1**	$ 336.2	**$ 63.7**	$ 74.5	**$ 414.8**	$ 410.7
	Vacations and holidays	**51.0**	46.4	**8.4**	8.8	**59.4**	55.2
	Occupational training (Ed. Centre)	**4.8**	3.7	**.2**	.1	**5.0**	3.8
	Other	**33.0**	33.3	**.3**	.0	**33.3**	33.3
		88.8	83.4	**8.9**	8.9	**97.7**	92.3
	Total Salaries and Wages	**439.9**	419.6	**72.6**	83.4	**512.5**	503.0
Related Costs:	Company funding to pension plans	**28.4**	29.0	**.9**	1.7	**29.3**	30.7
	Group medical/dental benefit payments	**9.7**	8.7	**2.1**	1.8	**11.8**	10.5
	Other employee benefits	**9.2**	2.4	**.6**	.9	**9.8**	3.3
	Canada Pension Plan/Quebec Pension Plan	**4.6**	4.3	**.8**	.9	**5.4**	5.2
	Unemployment Insurance	**8.6**	5.4	**1.5**	1.1	**10.1**	6.5
	Workers' Compensation	**1.2**	1.2	**.5**	.5	**1.7**	1.7
	Total Related Costs	**61.7**	51.0	**6.4**	6.9	**68.1**	57.9
	Total	**$ 501.6**	$ 470.6	**$ 79.0**	$ 90.3	**$ 580.6**	$ 560.9

Taxes Levied by Governments in Canada

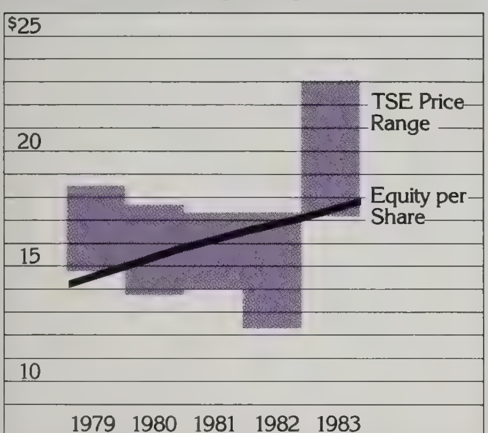
	1983	1982
	($ Millions)	
Income taxes		
Federal	**$ 65.1**	$ 58.4
Provincial	**28.8**	25.3
Property and machinery taxes	**44.5**	41.5
Capital taxes	**3.7**	3.1
Payroll taxes(1)	**17.2**	13.4
	$ 159.3	$ 141.7

NOTE: (1) Includes amounts capitalized

Shareholder Information

	1983	1982
Number of ordinary shareholders	**14,409**	11,885
Number of shares outstanding at December 31	**38,175,411**	34,322,022
Volume of shares traded:	**7,929,001**	3,241,684
The Toronto Stock Exchange		
Price Ranges (High-Low):	**$23-17⅛**	$17¼-12¼

Equity per Ordinary Share and Market Trading Range



Federal Government Valuation Day Value (December 22, 1971) **$12.75/Share**

Principal Ownership

The Company's outstanding ordinary shares totalled 38,175,411 as at December 31, 1983.

GTE Corporation (GTE) of Stamford, Connecticut, through its subsidiaries, Anglo-Canadian Telephone Company of Montreal and GTE International Incorporated, was at December 31, 1983 the owner of 19,404,796 shares, or 50.83% of the total ordinary shares outstanding (50.72% fully diluted).

Conversion

The $2.32 convertible subordinate preferred shares are convertible into ordinary shares of the Company at any time prior to the close of business on June 30, 1986, on the basis of two ordinary shares for each convertible preferred share. As at December 31, 1983, 41,481 or 1.8% of such shares had not yet been converted.

Dividend Reinvestment and Share Purchase Plan

The Company maintains a plan whereby holders of all classes of shares can elect to acquire ordinary shares through automatic reinvestment of dividends and investment of optional contributions. The Plan provides a discount of 5% on the price of ordinary shares purchased with reinvested ordinary share dividends and allows for optional contributions of up to $5,000 per calendar quarter for the purchase of additional ordinary shares. For an Offering Circular explaining the Plan, please write to:

Investor Relations, 19th Floor, 3777 Kingsway, Burnaby, B.C. V5H 3Z7

Ordinary Share Dividends

Dividends are payable quarterly on the first days of January, April, July and October. In 1983, dividends declared amounted to $.40 per share for each quarter, for an annual total of $1.60.

Market Trading

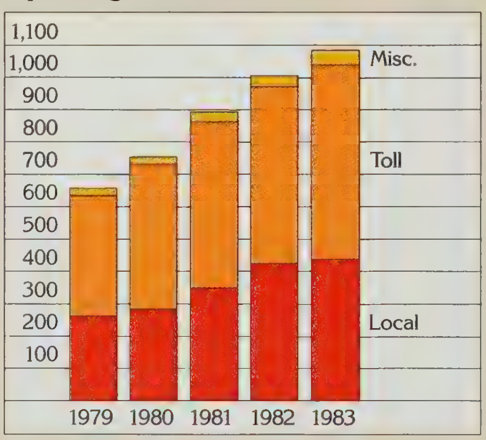
Shares are listed for trading on the Toronto, Montreal and Vancouver Stock Exchanges.

Consolidated Five-Year Statistics

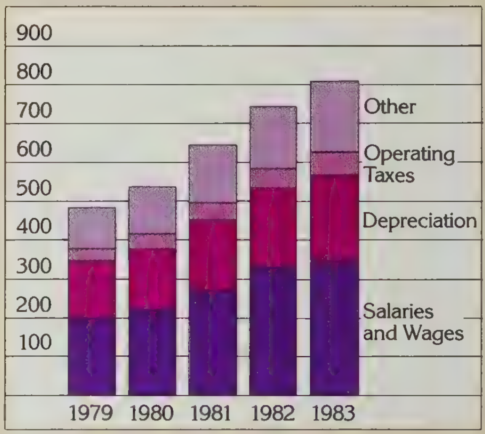
Selected Income Items[1] *($ Millions)*	Telecommunications operating revenues[2]
	Telecommunications operating expenses
	Salaries and wages expense
	Provincial, municipal and other taxes
	Other operating expense
	Depreciation
	Manufacturing sales
	Manufacturing cost of sales
	Manufacturing selling and administrative expenses
	Combined operating earnings
	Debt service costs
	Income taxes
	Preference and preferred dividends
	Ordinary share earnings
	Ordinary share dividends
Financial Ratios	Earnings per ordinary share
	Dividends declared per ordinary share
	Equity per ordinary share
	Percent return on average ordinary share equity
	Percent return on average invested capital
	Percent debt to total capitalization

NOTES: (1) Microtel included effective from the date of acquisition, October 1, 1979.
(2) 1979 revenues are before adjustment to comply with Anti-Inflation guidelines.

Telecommunications Operating Revenues *($ Millions)*

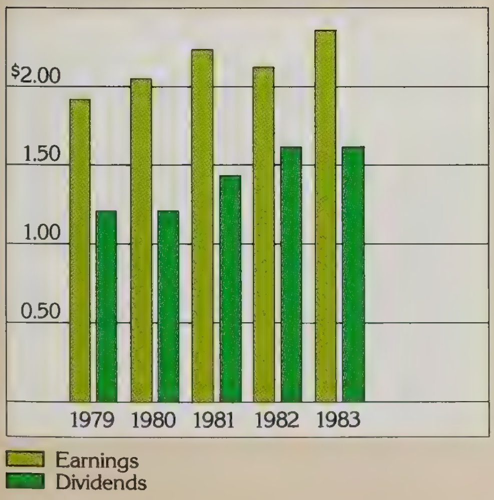


Telecommunications Operating Expenses *($ Millions)*

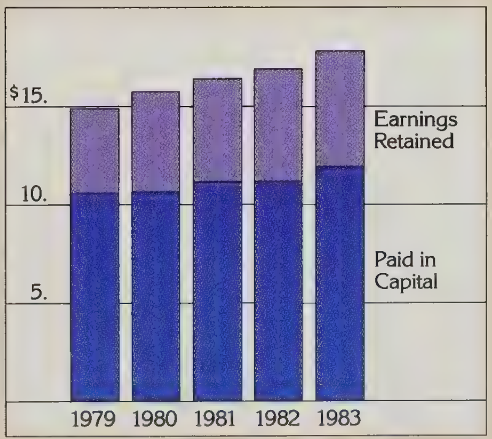


1983	1982	1981	1980	1979
$1,091.3	$1,009.4	$ 894.3	$ 754.5	$ 656.9
806.4	741.3	643.1	534.7	478.5
349.1	331.3	274.3	220.9	200.9
57.0	50.4	41.7	33.5	30.3
179.2	157.8	143.6	121.8	101.2
221.1	201.8	183.5	158.5	146.1
206.5	243.6	188.9	188.4	47.8(1)
170.7	209.5	169.5	162.4	40.7(1)
23.7	21.8	15.2	13.5	4.0(1)
297.0	280.4	255.4	232.3	199.8
96.0	107.8	91.9	76.2	64.9
93.9	83.7	78.2	76.5	65.7
20.9	16.7	16.8	17.7	17.3
86.2	72.2	68.5	61.9	51.8
58.0	54.8	43.6	36.4	32.5
$ 2.36	$ 2.11	$ 2.23	$ 2.04	$ 1.92
$ 1.60	$ 1.60	$ 1.42	$ 1.20	$ 1.20
$ 17.82	$ 16.83	$ 16.36	$ 15.73	$ 14.91
13.77	12.81	13.84	13.48	13.32
11.18	11.05	11.00	10.22	9.81
54	56	55	55	54

Earnings and Dividends Declared *(per Ordinary Share)*



Equity per Ordinary Share

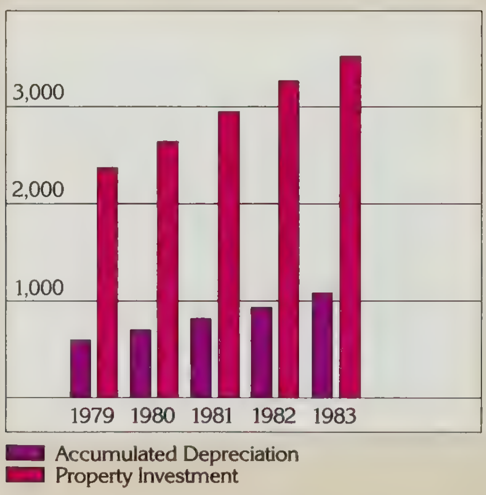


Consolidated Five-Year Statistics

Selected Balance Sheet Items *($ Millions)*	Total property, at cost
	Accumulated depreciation
	Total capitalization
	Short-term obligations
	Long-term debt
	Preference and preferred shares
	Ordinary share equity
Telecommunications Statistics	Gross capital expenditures *($ Millions)*
	Customer lines in service *(Thousands)*
	Percent electronic switched customer lines
	Net property investment per customer line *($)*
	Local calls completed *(Millions)*
	Toll calls completed *(Millions)*
	Employees at year end(2)
	British Columbia Telephone Company
	Canadian Telephones and Supplies Ltd.
	Number of shareholders at year end
Manufacturing Statistics(1) *($ Millions)*	Domestic sales
	Export sales
	Research and development expenditures
	Employees at year end(2)
	AEL Microtel Limited
	Microtel Pacific Research Limited

NOTE: (1) Microtel included effective from the date of acquisition, October 1, 1979.
(2) Regular full time employees.

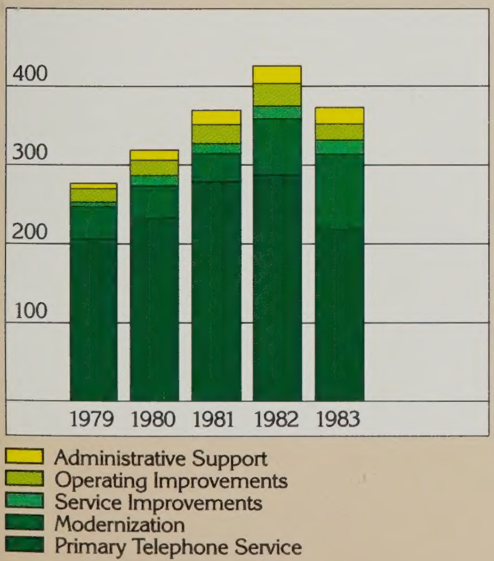
Property Investment *($ Millions)*



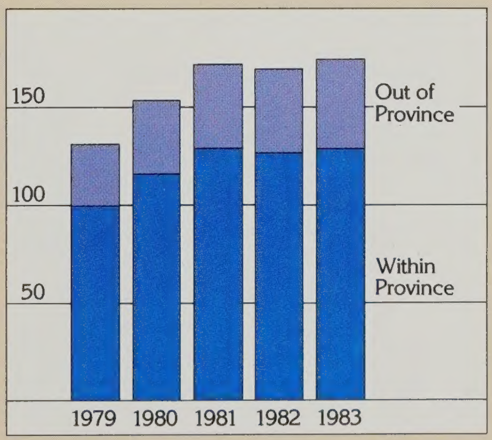
Capital Structure *($ Millions)*

1983	1982	1981	1980	1979
$3,529.0	$3,255.5	$2,930.4	$2,623.6	$2,365.8
1,041.2	907.9	795.3	673.2	566.9
2,060.5	1,952.8	1,784.7	1,624.2	1,534.9
47.1	170.4	193.8	149.8	95.7
1,060.5	924.0	792.0	745.8	733.7
272.7	280.7	239.6	249.6	262.5
680.2	577.7	559.3	479.0	443.0
$ 371.8	$ 424.8	$ 370.2	$ 318.9	$ 276.5
1,361	1,325	1,309	1,255	1,189
40.5	39.9	38.0	32.9	31.2
$ 1,801	$ 1,744	$ 1,606	$ 1,536	$ 1,494
3,229.2	3,140.0	3,165.7	3,034.7	2,413.2
173.5	168.4	171.1	152.6	130.3
13,477	14,063	14,406	13,235	12,890
834	863	859	768	787
29,949	27,692	26,409	28,016	26,171
$ 181.4	$ 208.8	$ 161.4	$ 133.3	$ 27.4(1)
25.1	34.8	27.5	55.1	20.4(1)
9.6	9.9	8.4	8.8	2.1(1)
2,187	2,638	3,038	2,935	3,030
297	278	263	241	—

Telecommunications Capital Expenditures *(by Category – $ Millions)*



Toll Calls *(Millions)*



Directors and Officers

Directors

Gordon F. MacFarlane
Chairman and
Chief Executive Officer
British Columbia Telephone Company
Burnaby, B.C.

W. Thomas Brown[1]
Honorary Chairman
Odlum Brown Limited
Vancouver, B.C.

M. Rendina K. Hamilton, Q.C.[3]
Barrister and Solicitor
Kelowna, B.C.

Justin V. Harbord[1]
Chairman
J.V. Harbord Company Ltd.
Victoria, B.C.

Gerald H.D. Hobbs[2]
Private Investor
Vancouver, B.C.

Member of:
1 Audit Committee
2 Salary Committee
3 Pension Trust Committee

James L. Johnson[2]
Senior Vice-President
of GTE Corporation and
President – Telephone Operating Group
of GTE Service Corporation
Stamford, Conn.

Victor F. MacLean[3]
Company Director
Vancouver, B.C.

John W. Pitts[1]
President and
Chief Executive Officer
MacDonald, Dettwiler
and Associates Ltd.
Vancouver, B.C.

Allan L. Rayfield
Senior Vice-President
of GTE Corporation and
President – GTE Diversified Products
and Services Group
Stamford, Conn.

Horace B. Simpson[3]
Vice-President
Okanagan Holdings Ltd.
Kelowna, B.C.

Hugh R. Stephen[2]
Company Director
Victoria, B.C.

Officers

Gordon F. MacFarlane
Chairman and
Chief Executive Officer

Terence F. Heenan
President and
Chief Operating Officer

Gilbert F. Auchinleck
Vice-President
Technical Support

Donald W. Champion
Vice-President
Administration

Leo J. Dooling
Vice-President
Revenue Requirements

James A. MacInnes
Vice-President
Corporate Communications

W.K. (Bill) McCourt
Vice-President
Network Marketing

D. Barry McNeil
Vice-President
Corporate Finance and Treasurer

K. Donald A. Morrison
Vice-President
General Counsel and Secretary

Colin G. Patterson
Vice-President
Corporate Development

Betty J. Rumford
Assistant Secretary

Robert H. Stevens
Vice-President
Supply, Transportation and
Buildings

J. Neil Stewart
Comptroller

Peter C. Watson
Assistant Treasurer

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British Columbia Telephone Company Ninety-Second Annual Report 1983

Incorporated by Special Act of the Parliament of Canada, April 12, 1916

Head Office
3777 Kingsway
Burnaby, B.C.
V5H 3Z7

Transfer Agent and Registrar
Montreal Trust Company

Duplicate Annual Reports
Every effort has been made to eliminate duplications in our shareholders' mailing list. However, if you have more than one holding you will receive a separate report for each registration unless your shares are registered under exactly the same name.

Annual Meeting
The Annual General Meeting of the Shareholders will be held on Thursday, March 22, 1984 at 11:00 a.m. in the Auditorium of the British Columbia Telephone Company Building, 3777 Kingsway, Burnaby, B.C., Canada.

Additional information or copies of the Annual Report may be obtained by writing to Investor Relations at the Head Office address above. Residents in the Vancouver area may also call 432-4410, while residents elsewhere in British Columbia may call free of charge 112-800-663-9405. From elsewhere in Canada, please call free of charge 1-800-663-9405.


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